

Routledge International Studies in Business History

SECURITY STRATEGIES IN INTERNATIONAL BUSINESS HISTORY

GERMAN COMPANIES IN ASIA IN THE 20TH CENTURY

Edited by
Marie Huber, Shakila Yacob and
Christian Kleinschmidt



Security Strategies in International Business History

This edited volume explores how German companies managed security challenges in Asia from the late 19th to the late 20th century. Through case studies in Japan, China, India, Malaysia, and Southeast Asia, it examines how firms in sectors like pharmaceuticals, electronics, banking, and trade adapted to colonial legacies, decolonization, and Cold War tensions. The book adopts a security-focused framework that goes beyond standard risk analysis, highlighting how businesses responded to political instability, cultural differences, and regulatory shifts. Drawing from rarely used German and Asian archives, contributors uncover the strategies companies used to maintain stability in uncertain environments. Aimed at business historians, scholars of international business, and those studying colonialism, diplomacy, and development, the volume also appeals to students and researchers in Asian, German, international relations, and security studies. By offering a comparative and cross-sectoral approach, it fills key gaps in understanding German-Asian economic ties and offers fresh theoretical insights into business resilience. The rich empirical material makes it a valuable resource for teaching and research on how international firms shaped and adapted to the global changes of the 20th century.

Marie Huber is a historian at Philipps University Marburg specializing in economic history with a focus on postcolonial contexts in Africa and Asia. Her research interests include global industrialization processes, (post-) colonial business history, and the intersection of development studies with historical analysis.

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German Companies in Asia in the
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1 Introduction

*Marie Huber, Shakila Yacob and
Christian Kleinschmidt*

Over the course of the 20th century, Germany emerged as one of the world's largest industrialized nations, with a strong focus on foreign trade that earned the country the title of “world export champion” at the dawn of the 21st century. This remarkable achievement was not a historical accident, but rather the culmination of a long-standing tradition dating back to the 19th century, when German companies embarked on an ambitious mission to establish themselves as key players on the global economic stage, rivaling established imperial powers like Great Britain, France and the Netherlands.

The first phase of globalization saw major German enterprises not only exporting their products worldwide but also expanding their presence through direct investments across numerous countries. Companies such as chemical manufacturers Bayer and BASF, steel producers Thyssen and Krupp, and electrical firms Siemens and AEG emerged as the vanguard of this international expansion. Even before the First World War, these firms recognized that traditional European markets were becoming relatively less important to the German economy, while opportunities in America and, importantly, Asia were steadily gaining significance.

This pattern has largely persisted into the present day. After Europe and the Americas, the Asia-Pacific region currently stands as the third largest recipient of German exports, accounting for 12.45% of Germany's total exports as of 2022.¹ Within this region, the most important trading partners are China, Japan, South Korea, and India—nations with whom economic relations have followed complex and often turbulent trajectories throughout the period covered in this volume.

The path of German business engagement in Asia has been far from straightforward. Two world wars, periods of economic crisis, decolonization

1 “German Exports by Country and Region 2022,” World Integrated Trade Solution (WITS), World Bank, accessed May 30, 2025, <https://wits.worldbank.org/CountryProfile/en/Country/DEU/Year/2022/TradeFlow/Export>.

2 *Security Strategies in International Business History*

processes, and the Cold War repeatedly reshaped the political and economic landscape of Asia, creating significant challenges, uncertainties, and risks that necessitated continuous adaptation by German firms. These external disruptions fundamentally altered the context of German-Asian economic relations, requiring businesses to develop sophisticated strategies for managing risk and maintaining security in highly contingent environments.

The scholarly examination of Germany's rise to "Exportweltmeister" status and the global prominence of its multinationals in the post-1945 period has generated an extensive body of literature. However, within this scholarship, relatively few studies have focused on Germany's interactions with the (post-)colonial world, particularly in Asia. Even fewer works have addressed the specific roles, activities, and security strategies of German companies operating in these regions. This volume aims to address this gap by bringing together case studies from different research contexts to analyze the multifaceted ways German enterprises navigated the complex security challenges of doing business in Asia throughout the 20th century.

Conceptual Framework: Security, Risk, and Resilience in Business History

This volume conceptualizes security as a critical analytical lens for understanding the historical trajectories and operations strategies of German companies in Asia, highlighting how security concerns shaped corporate decision making, state-corporate relations, and regional engagements. While economic and business historians have often employed risk as an analytical lens, the concept of security has received comparatively less attention within the field of business history. This represents a significant gap, as security-oriented concepts offer valuable insights on how firms have historically navigated environments characterized by high degrees of uncertainty, volatility, and complexity.

An essential distinction lies in the concepts of risk and security. As outlined in "Security and Insecurity in Business History: Case Studies in the Perception and Negotiation of Threats"², security and insecurity must be understood as bound in their historical context and constructed by historical actors. While risk is often associated with opportunities and economic development—the entrepreneur's willingness to accept calculated risk in pursuit of profit—economic actors are equally concerned with the fundamental desire for security and the mitigation of existential threats to business operations.

2 Nina Kleinöder, Mark Jakob, and Christian Kleinschmidt, eds., *Security and Insecurity in Business History: Case Studies in the Perception and Negotiation of Threats* (Nomos Verlagsgesellschaft mbH & Co. KG., 2021).

In this analytical context, security can be broken down into at least four dimensions: classical protection from man-made threats, technical safety, certainty in threat assessment, and confidence in economic actors' ability to navigate within economic systems. This understanding of security is crucial for comprehending business operations in contingent settings, such as those navigated by German enterprises in Asia throughout the global 20th century.

Traditional approaches to international business have often employed the concept of "political risk" when analyzing firm behavior in foreign markets.³ While valuable, this framework tends to focus narrowly on formal political structures and their impact on business operations. Our security-centered approach broadens this perspective by examining how firms perceived, constructed, and responded to a wider range of threats, including political instability, economic uncertainty, social upheaval, legal ambiguity, and cultural challenges.

Security, in our conception, is not merely the absence of risk but represents the active processes through which firms seek to create stability, predictability, and protection for their operations in diverse Asian contexts. This approach allows us to analyze how businesses not only reacted to external threats but also actively shaped their operating environments through strategic action.

We also draw upon the concept of "securitization," not in the way the term is used by financial sciences, to describe the pooling of assets which are then sold as "securities", but in the way in which it has emerged as an important analytical framework in international relations and security studies. Securitization in this context is used to describe the process by which actors transform subjects into matters of security, thereby legitimizing extraordinary measures to address perceived threats. As a historical process, securitization unfolds through dynamic interactions over time, involving changing definitions of security situations, evolving interpretative frames, and shifting security repertoires.⁴ In the business context, we examine how German companies identified, prioritized, and addressed security concerns in their Asian operations, and how these processes shaped their strategic decisions.

By applying this theoretical lens to historical case studies spanning colonial, postwar, and postcolonial contexts, this volume aims to shed light on the multifaceted role of businesses in these environments, providing new

3 Mark Casson and Teresa da Silva Lopes, "Foreign direct investment in high-risk environments: An historical perspective," *Business History* 55, no. 3 (2013): 375-404.

4 Thorsten Bonacker, Horst Carl, Andreas Langenohl, and Angela L. Marciniak, "Republican Freedom and Committees of Safety: Notes on Historicization in Critical Security Studies," *Journal of Global Security Studies* 8, no. 2 (2023).

insights into entrepreneurial risk management and adaptation in highly contingent settings. It offers fresh perspectives on how businesses navigate political, economic, and social turbulence; adapt to local contexts; and balance opportunities and risks across diverse Asian settings.

Research Questions and Objectives

This edited volume is guided by several core research questions that explore the complex relationship between German companies and their security strategies in Asia throughout the 20th century. These questions reflect our interest in understanding not just what companies did, but how they perceived, constructed, and responded to security challenges in diverse contexts.

A central question driving this research is: How did German enterprises' understanding of danger, risk, and security change over time? This book aims to change the focus toward how companies have historically understood dangers, risks, and security, showing that these perceptions have varied markedly across different periods and regional contexts. By analyzing how security was conceptualized by business actors in different historical moments—from the imperial era through decolonization to the Cold War and beyond—we gain a deeper understanding of the evolving nature of business decision-making in conditions of uncertainty.

What security repertoires and coping mechanisms have German companies developed to operate in Asian markets? The case studies in this volume examine the specific strategies, organizational structures, and business practices that firms employed to create security for their operations. These range from cooperative ventures and joint partnerships with local actors to the development of political networks, diversification strategies, and careful navigation of changing regulatory environments. By identifying patterns across different firms and contexts, we aim to develop a more comprehensive understanding of the security toolkit available to international businesses.

How did the securitization and de-securitization processes affect business operations, investments, and strategic planning? This question explores how the framing of certain issues as security concerns (or the removal of such framing) influenced concrete business decisions. For instance, when political instability was perceived as a security threat, how did this shape investment decisions or market entry modes? Conversely, when previously uncertain political relationships were normalized, how did this create new business opportunities? By examining these processes, we gain insight into the relationship between perception and action in international business.

How did the presence and actions of German companies impact political and social dynamics, and how did enterprises become political agents

themselves? This question recognizes that businesses were not merely passive responders to external security challenges but were active participants in shaping their operating environments. The chapters in this volume examine how German firms navigated complex political landscapes, sometimes influencing political developments through their economic leverage, cultural capital, or strategic relationships. This approach helps us understand the bidirectional relationship between business and politics in international contexts.

Beyond the political ambitions to establish Germany as a neutral agent and “winner” of decolonization⁵, what drove the interest of business relations with Asia from the companies’ perspective? This question directs attention to the commercial motivations, strategic calculations, and economic opportunities that German businesses perceived in Asian markets. While political considerations certainly shaped business decisions, we are equally interested in understanding how companies evaluated market potential, competitive dynamics, and resource access in their expansion strategies.

Through these research questions, this volume aims to:

- 1 Develop a more nuanced understanding of security as a historical concept in international business
- 2 Identify patterns and variations in how German companies constructed and responded to security challenges across different Asian contexts
- 3 Contribute to the emerging field of (post-)colonial business history by examining German economic activities in diverse Asian settings
- 4 Bridge the gap between business history and security studies by applying security concepts to historical analysis of firms and markets
- 5 Provide empirical case studies that illuminate the complex interplay between political, economic, and social factors in international business operations

By addressing these questions and objectives, we hope to shed light on the multifaceted role of businesses in these contexts, providing new insights into entrepreneurial risk management and adaptation in highly contingent settings. The volume offers fresh perspectives on how businesses navigate political, economic, and social turbulence; adapt to local contexts; and balance opportunities and risks across diverse Asian settings.

5 Christian Kleinschmidt and Dieter Ziegler, eds., *Dekolonisierungsgewinner: Deutsche Aussenpolitik und Aussenwirtschaftsbeziehungen im Zeitalter des Kalten Krieges* (De Gruyter Oldenbourg, 2018).

Historiographical Contribution

This edited volume situates itself at the intersection of several developing fields of historical inquiry, including business history, security studies, and postcolonial approaches to economic activities. By bringing these perspectives together through the lens of German companies operating in Asia, we offer new insights into both empirical cases and theoretical frameworks.

Business History and Security Concepts

Economic and business historians have rarely used security, danger, or threat as primary analytical concepts. However, in historical research more broadly, these concepts have emerged and spread throughout various subdisciplines in recent years, indicating a changing perspective in historiography.⁶ This edited volume builds upon this emerging interest in security as a historical concept and applies it specifically to business activities in international contexts.

The concept of “resilience,” which addresses connected questions of security—such as risks, preparedness, and capability to adapt to threats—has gained significant attention in business and management research in recent years.⁷ This engagement is characterized by the fragmented nature of resilience literature across different disciplines and levels of analysis, leading to confusion and a lack of clarity in the concept.⁸ Thus, although resilience has become a valuable construct in business history research, there is a need for further conceptual development as an analytical tool.

In this volume, we define resilience as both a process and an outcome. As a process, resilience involves the development of organizational capabilities that enable firms to withstand, adapt to, and recover from disruptions. As an outcome, resilience manifests in the sustained ability of businesses to maintain core functions despite environmental turbulence. By examining how German companies in Asia developed resilience over time, we gain insights into the long-term evolution of business strategies in volatile contexts.

6 Amerigo Caruso and Birgit Metzger, “More than Fashionable Concepts? Risk, Security and Resilience in Modern History,” *International Journal for History, Culture and Modernity* 7, no. 1 (2019): 301–20. <https://doi.org/10.18352/hcm.514>.

7 Martina K. Linnenluecke, “Resilience in Business and Management Research: A Review of Influential Publications and a Research Agenda,” *International Journal of Management Reviews* 19, no. 1 (2017): 4–30. <https://doi.org/10.1111/ijmr.12076>>.

8 Sebastian Raetzke, Stephanie Duchek, M. Travis Maynard, and Bradley L. Kirkman, “Resilience in Organizations: An Integrative Multilevel Review and Editorial Introduction,” *Group & Organization Management* 46, no. 4 (2021): 607–56.

(Post-)colonial Business History

Exploring the history of business within colonial and postcolonial frameworks necessitates a critical reassessment of established notions pertaining to modern business entities and practices. In recent years, there has been an increase in academic work delving into the influence of commerce and corporate entities on the formation of states during the late and postcolonial periods, as well as their interplay with emerging nationalist ideologies.⁹

The conventional Western concept of the “modern corporation” often encountered challenges in the realm of global business, where corporate conduct frequently diverged from the traditional practices observed in their home markets.¹⁰ The critical role of state-corporate relationships in both colonial and postcolonial environments underscores the importance of integrating political and social analyses with the study of corporate structure and strategy. Such integrated examinations often reveal narratives that contrast with prevailing corporate accounts.

The emerging field of (post-)colonial business history offers a rich tapestry of insights, especially when business relations are examined as organizational frameworks in which various individuals and entities interact. This integrated approach can yield new and enriching insights and can help build bridges between established disciplinary lines of inquiry. Decker (2005) and Stockwell (2000) provide excellent examples of this approach by analyzing the strategies of the Barclays Bank in Nigeria and British companies in the Gold Coast, respectively.¹¹ This book seeks to broaden the field with more regionally specific examples from Asia over the past 100 years.

9 Stephanie Decker, *Postcolonial Transition and Global Business History: British Multinational Companies in Ghana and Nigeria* (Routledge, 2022); Christina Lubinski, *Navigating Nationalism in Global Enterprise: A Century of Indo-German Business Relations* (Cambridge University Press, 2023); Mircea Raianu, *Tata: The Global Corporation That Built Indian Capitalism* (Harvard University Press, 2021); Marie Huber, “Ideologies of (in)Competence – Africanization and Management in Francophone West Africa after Independence,” *Comparativ* 33, no. 5/6 (2023): 691–706.

10 Leigh Gardner and Tirthankar Roy, *The Economic History of Colonialism* (Bristol University Press, 2020), 1487–150; Philip Scranton and Patrick Fridenson, *Reimagining Business History* (Johns Hopkins University Press, 2013), 47–50.

11 Stephanie Decker, “Decolonising Barclays Bank DCO? Corporate Africanisation in Nigeria, 1945–69,” *The Journal of Imperial and Commonwealth History* 33, no. 3 (2005): 419–40; Sarah Stockwell, *The Business of Decolonization: British Business Strategies in the Gold Coast* (Clarendon Press, 2007).

German Business in Asia: Filling the Research Gap

The scholarly examination of Germany's "Exportweltmeister" status and the ascent of its multinationals to global prominence post-1945 has produced an extensive body of literature.¹² However, within this extensive scholarship, only a handful of studies have focused on Germany's interactions with the (post-)colonial world, with a focus on Germany's political economy and the politicization of foreign trade, with even fewer addressing the specific roles and activities of the German business actors and companies in these regions.¹³

There is a clear gap in research regarding German businesses in Africa and Asia in particular, and their experiences remain understudied. However, recent scholarly efforts indicate the potential value of considering these elements collectively as a burgeoning academic domain.¹⁴ The rationale for emphasizing regional distinctions becomes evident through works focusing on India, Malaysia, and Singapore, respectively.¹⁵ These distinctions are not merely geographic but also reflect the unique economic, political, and cultural dynamics that German businesses encountered and navigated within different postcolonial contexts.

This volume contributes to comparative business history by examining German firms alongside other national business communities operating in Asia. By situating German business activities within the broader context of international commercial interests in the region, we gain a more nuanced understanding of what was distinctive about German approaches and what reflected more universal patterns of business behavior. Moreover, our focus

12 most recently: Jan-Otmar Hesse, *Exportweltmeister: Geschichte einer deutschen Obsession*, (Suhrkamp, 2023).

13 Eric Burton, *In Diensten des Afrikanischen Sozialismus: Tansania und die globale Entwicklungsarbeit der beiden deutschen Staaten, 1961–1990* (De Gruyter Oldenbourg, 2021); Ulf Engel and Hans-Georg Schleicher, *Die beiden deutschen Staaten in Afrika: zwischen Konkurrenz und Koexistenz 1949 – 1990* (Inst. für Afrika-Kunde, 1998).

14 Steffen Dörre, *Wirtschaftswunder global: Die Geschichte der Überseemärkte in der frühen Bundesrepublik* (Franz Steiner, 2019); Tristan Oestermann, "Kings of Quinine: The Pharmakina Company and West German Pharmaceutical Production in Postcolonial Zaire During the Long Boom," *The Journal of Imperial and Commonwealth History* 52, no. 6 (2024): 885–907; Kim Sebastian Todzi, *Unternehmen Weltaneignung: Der Woermann-Konzern und der deutsche Kolonialismus 1837-1916* (Wallstein Verlag, 2023).

15 Julian Faust, *Spannungsfelder der Internationalisierung: Deutsche Unternehmen und Außenwirtschaftspolitik in Indien von 1947 bis zum Ende der 1970er Jahre*, 1st ed. (Nomos, 2021); ; Lubinski, *Navigating Nationalism in Global Enterprise*; Shakila Jacob, "Rising of the Phoenix: Mitigating Political Risk through Knowledge Management—Behn, Meyer & Co., 1840–1959," *Enterprise & Society* 19, no. 4 (2018): 946–78.

on security strategies provides a bridge between business history and other disciplines, including international relations, political science, and cultural studies. By adopting an interdisciplinary approach to understanding how businesses constructed and responded to security challenges, we demonstrate the value of cross-fertilization between academic fields.

This collection of articles serves as a unique resource by spotlighting various archives from both government and business sectors. The contributors have drawn on previously underutilized materials from company archives, diplomatic records, and personal papers, offering new empirical evidence for understanding German-Asian business relations. This wealth of archival material may serve as a catalyst, inspiring other researchers to delve into various facets of the international activities of German companies.

By focusing on German companies in Asia, this book seeks to synthesize these isolated studies into a cohesive framework, thereby enriching our understanding of the various strategies employed by these entities and the broader implications of their presence in Asia. The aim is to construct a more nuanced picture of how German businesses navigated and adapted to the complex, multifaceted environments of the (post)colonial world.

Methodological Approach and Case Study Selection

This volume employs a distinctive methodological approach that combines case study analysis with conceptual innovation in the application of security frameworks to business history. Our methodology reflects both pragmatic considerations in assembling an edited collection and the theoretical orientation that guides our analysis of German companies in Asia.

The case studies in this volume were selected based on several criteria. First, we sought to include a diverse range of German companies operating across different Asian regions, from East Asia to Southeast Asia and South Asia. This geographical breadth allows us to examine how security challenges and business responses varied across distinct political, economic, and cultural contexts within Asia.

Second, we aimed to cover different industries and business types, including manufacturing firms, trading companies, banks, and cultural enterprises. This sectoral diversity enables us to analyze how security considerations manifested differently depending on the nature of business activities, capital intensity, and technological requirements.

Third, we selected cases that span different historical periods, from the late 19th century through the post-World War II era and into the late 20th century. This temporal range facilitates the examination of continuities and ruptures in business strategies across major historical junctures, including colonial rule, world wars, decolonization, and the Cold War.

The inclusion of both senior and junior scholars from Germany and Asia provides a rich tapestry of perspectives covering various countries and periods. This diversity in scholarly backgrounds enhances the volume's analytical depth and brings multiple methodological approaches and worldviews to address our central questions about business security strategies.

Sources and Archives

Contributors to this volume have drawn upon a wide range of primary source materials, reflecting the complex nature of international business activities and the multiple actors involved in shaping security considerations. These sources include:

- 1 **Corporate Archives:** Records from companies such as Telefunken, Hoechst, Bayer, Sartorius, and Deutsch-Asiatische Bank provide crucial insights into internal decision-making processes, risk assessments, and strategic planning.
- 2 **Government Records:** Diplomatic correspondence, policy documents, and reports from both German and Asian governments offer perspectives on the political frameworks that structured business operations.
- 3 **Personal Papers:** Letters, diaries, and memoirs of business leaders and managers illuminate individual perceptions of security challenges and the personal networks that facilitated business operations.
- 4 **Trade Publications:** Industry journals and business periodicals demonstrate how security considerations were publicly discussed and how business communities collectively understood emerging risks and opportunities.
- 5 **Local Archives in Asian Countries:** Where available, sources from archives in Japan, China, Malaysia, India, and other Asian countries provide crucial perspectives from host societies and reveal the reception of German business activities.

This multiarchival approach allows for triangulation of different viewpoints and helps to overcome biases inherent in any single source type. It also enables contributors to examine the gap between official corporate narratives and actual business practices, particularly in politically sensitive contexts.

While each chapter focuses on specific case studies, the volume as a whole employs a comparative framework that examines similarities and differences across regions, time periods, and business types. This comparative approach allows us to identify both general patterns in how German companies approached security challenges in Asia and the specific factors that led to variations in security strategies.

Several comparative dimensions inform our analysis:

- 1 **Temporal Comparisons:** Contrasting business approaches before and after World War II, during colonial and postcolonial periods, and across different phases of the Cold War.
- 2 **Regional Comparisons:** Examining how German firms adapted their strategies to different Asian contexts, from Japan's industrializing economy to China's communist system to the newly independent nations of Southeast Asia.
- 3 **Sectoral Comparisons:** Analyzing how security considerations varied across different industries, from capital-intensive manufacturing to banking to cultural enterprises.
- 4 **Organizational Comparisons:** Contrasting the approaches of different types of German businesses, from large multinational corporations to medium-sized "hidden champions" to family-owned trading houses.

This multidimensional comparative framework allows us to develop more nuanced generalizations about the relationship between business strategies and security considerations while respecting the historical specificity of each case.

We acknowledge certain methodological limitations in our approach. First, the availability of sources varies considerably across cases, with some companies maintaining more comprehensive archives than others. Second, language barriers have sometimes limited access to local perspectives, though many contributors have made concerted efforts to incorporate Asian sources.

Third, we recognize that the concept of "German companies" encompasses significant variation over time, particularly given the political ruptures of the 20th century. While we focus primarily on firms from the Federal Republic of Germany in the post-1945 period, we also include companies from earlier political configurations of Germany, recognizing both continuities and discontinuities in their identities and operations.

Finally, we approach the notion of "Asia" not as a homogeneous entity but as a diverse region with distinct national and subnational contexts that shaped business opportunities and challenges in different ways. Our comparative framework seeks to respect this diversity while identifying patterns that transcend locations.

Despite these limitations, we believe that our methodological approach offers valuable insights into the security strategies of German companies in Asia and contributes to broader methodological innovations in business history by demonstrating the analytical value of security concepts for understanding international business operations.

Volume Structure and Chapter Overview

This edited volume is organized into four thematic sections that reflect different contexts of German business engagement in Asia. Rather than adhering to a strictly chronological structure, we have chosen a thematic organization that better captures the unique periodization that business history demands. Economic exchanges often span multiple political periods, and commercial relationships frequently transcend the neat chronological boundaries that define political history. This approach underscores business history's distinctive contribution to understanding global interconnectivity and the nuances of globalization.

Part I: *Beyond Formal Colonialism – Economic Actors and their Interests in the “Far East” in Imperial, Interwar, and Fascist Germany*

The first section examines imperial, interwar, and fascist Germany's economic links with British and Dutch colonies in Asia. These chapters highlight the dual role played by business actors, who functioned simultaneously as proxies for German state interests and as independent commercial entities pursuing their own objectives. During this period, German businesses bolstered ties with Southeast Asia amid imperial rivalry with other European powers, while the anticipation of potential territorial acquisition shaped entrepreneurial strategies throughout this era.

Chapter 2: Tristan Oestermann (Berlin): “Should We Own a Plantation? German Pharmaceutical Companies, Resource Security, and Cinchona Production in the Dutch East Indies, 1870–1913”

Oestermann examines two contrasting strategies German pharmaceutical companies used to secure cinchona bark for quinine production: early firms like Fr. Jobst and Zimmer & Co. invested directly in Java plantations, while later companies such as C.F. Boehringer & Soehne formed cartels after price drops made ownership too risky. The cartel approach proved more successful, forcing Dutch East Indies planters into cooperation and creating a dominant pharmaceutical-plantation alliance that controlled the global quinine market for decades. This illustrates how German manufacturers shaped colonial production without direct plantation ownership.

Chapter 3: Paul Franke (Marburg/Berlin): “The Art Trade Here Is Possibly Even More Dangerous Than in Europa’ – Risk Perceptions by German Art Dealers, Connoisseurs, and Collectors in the Japanese and Chinese Art Markets 1900–1940s”

Following the rising interest in Asian cultural artifacts, German art collectors from private and public institutions intensified their efforts to acquire art

and antiquities from China and Japan after the turn of the century. Franke examines the practices and strategies of securing art objects as well as the fluid borders between cultural politics and security arrangements in the transnational space and networks between Germany and Asia in the first half of the 20th century.

Chapter 4: Friederike Sattler (Frankfurt): “Risky Business: The Straits and Sunda Syndicate (1910–1945). German Investments in the Plantation Economy of Southeast Asia”

This chapter explores how German overseas trading houses began to take greater interest in investment opportunities in tea, coffee, and rubber plantations in Southeast Asia in the 1890s. Focusing on the Straits and Sunda Syndicate Hamburg-Batavia, Sattler examines which strategies German representatives pursued to secure their investments and assert their interests in decision-making processes regarding investment projects in Southeast Asia.

Part II: *Postcolonial Profiteers? Challenges and Opportunities for German Companies in Nationalizing Economies*

The second section explores how newly independent nations aimed to assert control over external investments while simultaneously seeking to enhance international trade despite limited foreign currency reserves. German firms, whether already present in the region or seeking global market re-entry after World War II, had to navigate the political risks and opportunities that presented themselves in these emerging economies.

Chapter 5: Shakila Yacob (Kuala Lumpur) & Marie Huber (Marburg): “Navigating Postcolonial Landscapes: Analyzing the Strategies of German Corporations in Malaysia during the 1970s”

This chapter examines the drivers behind the long-term sustainability of German businesses in postcolonial Malaysia. Using Behn Meyer, a fifth-generation family business, as a case study, the authors argue that the firm’s flexible strategies ensured its survival in Malaysia and the wider Southeast Asia region. The study identifies three key determinants of Behn Meyer’s sustainability: proactive compliance with Malaysianization policies while safeguarding core interests, building strategic partnerships with diverse stakeholders, including government entities and local communities, and leveraging its versatility as a trading firm to navigate shifting economic landscapes

Chapter 6: Amit Das Gupta (München): “Struggling for the Release of German Enemy Property in India (1953–1963)”

Upon re-entering global markets after World War II, German businesses encountered numerous legal hurdles. This chapter examines how India emerged as a promising partner for Germany, seeking economic

collaboration with technologically advanced nations without imposing politically restrictive conditions. Das Gupta analyzes how companies like Siemens, AEG, and Telefunken navigated the complex process of reclaiming assets that had been placed under the custodian of enemy property in 1939.

Part III: *Business Strategies in Emerging Markets*

The third section is centered on analyzing German business strategies with the emerging industrial states of Japan and South Korea. These chapters shed light on the collaborative efforts between German enterprises and their domestic counterparts, exploring how host country policies and selective preferences influenced German investments and business strategies.

Chapter 7: Florian Staffel (Paderborn): “Cooperation and Catching up: Telefunken’s Relationships with Japanese Companies (1920s–1970s)”

This chapter examines the relationships between the German company Telefunken and Japanese enterprises over five decades, primarily focusing on consumer electronics. Staffel analyzes how Telefunken responded to two fundamental transformations: the political change after World War II that led to a reorganization of the corporate landscape in both Japan and Germany, and the increasing competitiveness of the Japanese electrical and consumer electronics industry from the late 1950s.

Chapter 8: Thomas Eichert (Tübingen): “Risk Management of Market Entry: Early Korean-German Business Cooperation in the Pharmaceutical Industry, 1957–1972”

Focusing on the partnership between the then second-largest German pharmaceutical company Hoechst and the Korean pharmaceutical company Handok, Eichert analyzes the strategies of various actors within the network of relationships between firms and states. He argues that German businesses prevented and mitigated unfamiliarity and institutional risk by cooperating with state and non-state actors, relying on investment and export guarantees from the German government.

Chapter 9: Jonathan Krautter (Berlin), “How German Firms Responded to the Political Risk Posed by the Japanese Government’s Foreign Investment and Technology Import Licensing System During the Postwar Period (1954–1967)”

This chapter investigates how German chemical firms responded to the political risk posed by the Japanese government’s foreign investment and technology import licensing system during the postwar period. Krautter examines how these companies, as early investors in Japan, faced a hostile government employing an ambiguous licensing system to restrict foreign control over domestic enterprise, thereby introducing additional economic uncertainty.

Part IV: Cooperation with Communism – West German Interests in the People’s Republic of China

The final section undertakes a comprehensive exploration of German investments in Communist China during the Cold War. These chapters reveal the complex interplay between ideological imperatives and pragmatic business opportunities, illuminating the multifaceted dimensions of German economic interests in a socialist economy.

Chapter 10: Yi Liu (Bochum): “Secured Legitimacy: Deutsch-Asiatische Bank’s Strategy for Mitigating Political Risks in Chinese business (1945–1957)”

This chapter examines the role of Deutsch-Asiatische Bank (DAB) in negotiating and signing the first Sino-German semi-official trade agreement in the 1950s. Liu reveals how the resilience of business ties dating back to the interwar period, despite regime change, and purely economic factors, motivated players on both sides to mitigate extraordinary risks and reach an agreement on a set of rules for bilateral trade during the early Cold War.

Chapter 11: Caetano Franz (Göttingen)/Christian Kleinschmidt (Marburg): “Balancing Opportunities and Risks: A Case study of Sartorius’ Approach to the Chinese Market, 1945–1995”

This chapter examines how Sartorius AG, a technology provider for the biopharmaceutical industry and a typical example of a “hidden champion,” developed its internationalization strategy in China. Franz and Kleinschmidt analyze how the company navigated the central dilemma in entering the Chinese market: balancing the anticipated opportunities offered by access to the potential market against the unforeseeable risks of a completely unknown market environment, particularly the risk of uncontrolled outflow of know-how.

We understand that this thematic organization departs from a strictly chronological approach. However, we believe that this structure better serves our analytical purposes by highlighting the distinct security challenges that characterized different contexts of German business engagement in Asia. The organization allows us to draw comparisons across similar contexts while maintaining historical specificity. We acknowledge that there are gaps in our coverage—most notably the absence of chapters dedicated to East German (GDR) relations with Asia. Our work is intended as a stepping stone, emphasizing the need for further inquiry into the multifaceted nature of historical international business relations, which we address more fully in our concluding chapter. Through this structure, we aim to demonstrate both the diversity of German business experiences in Asia and the common threads that connect these experiences across different contexts. The security framework that informs our analysis provides conceptual

coherence across the diverse case studies, allowing us to identify patterns in how German companies constructed and responded to security challenges throughout the 20th century.

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PART I

**Beyond Formal
Colonialism – Economic
Actors and Their Interests
in the “Far East”
in Imperial, Interwar and
Fascist Germany**



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2 Should We Own a Plantation? German Pharmaceutical Companies, Resource Security, and Cinchona Production in the Dutch East Indies, 1870–1913

Tristan Oestermann

Introduction

On 31st May 1886, Friedrich Engelhorn, founder of the Badische Anilin- und Sodafabrik in Ludwigshafen, later known as BASF, wrote to his son Fritz, discussing the latter's latest business maneuver.¹ Fritz was co-owner of the pharmaceutical company of C.F. Boehringer & Soehne in Mannheim, on the other side of the Rhine.² The firm was one of the world's leading producers of quinine – an alkaloid mainly used as an antimalarial but also as a tonic and febrifuge. During the 19th century, it was considered one of the most important drugs.³ Fritz Engelhorn had informed his father that he and his partner, Ernst Boehringer, were negotiating a merger with two of the company's fiercest competitors: the quinine manufacturers Fridr. Jobst and Zimmer & Co.⁴ The patriarch was skeptical: Sure, the merger would knock off market rivals and Boehringer would be able to take over their customer base. However, he knew that Georg Carl Zimmer, owner of Zimmer & Co., would not be happy with the proposed terms: His capital was supposed to be reduced and his quinine factory in Frankfurt shut down.

1 Friedrich-Engelhorn-Archiv (FEA) 1/2 Friedrich Engelhorn to Fritz, Karlsbad, 31/05/1886. The author would like to thank Kim Todzi.

2 There is no company history of C.F. Boehringer & Soehne which meets academic standards, but many published by the firm itself. See e.g. Ernst Peter Fischer, *Wissenschaft für den Markt: Die Geschichte des forschenden Unternehmens Boehringer Mannheim* (Piper, 1991); C.F. Boehringer & Soehne, *Denkschrift der C.F. Boehringer & Soehne GmbH Mannheim-Waldhof anlässlich ihres 75jährigen Bestehens 1859–1934* (C.F. Boehringer & Soehne, not dated). Kim Todzi and the author are preparing an article about the company's history.

3 Stefanie Gänger, *A Singular Remedy: Cinchona Across the Atlantic World, 1751-1820* (Cambridge University Press, 2021), 1f.

4 On the history of both firms: Volker Ziegler, *Die Familie Jobst und das Chinin: Materialwarenhandel und Alkaloidproduktion in Stuttgart 1806–1927* (GNT, 2003); C.F. Boehringer & Soehne, *Denkschrift*.

Furthermore, Boehringer planned to reject the takeover of Zimmer's factory buildings – and his cinchona plantations on the island of Java in the Dutch East Indies.⁵

Quinine, a natural alkaloid, is chemically extracted from the bark of cinchona trees. To produce this antimalarial, companies needed (and still need) cinchona bark. Zimmer & Co., but also Jobst, as will be shown in this chapter, invested in cinchona plantations to secure their access to this raw material. Boehringer and others, however, were unwilling to acquire cinchona plantations. Rather, they preferred to purchase the raw material on the world market. And apparently, Boehringer's management did not see the merger with Zimmer and Jobst as an opportunity for the company to become a large plantation owner. The exchange of letters between Friedrich and Fritz Engelhorn, therefore, illustrates two different strategies employed by quinine-producing pharmaceutical companies regarding the problems and risks of their resource supply. Some, like Zimmer and Jobst, invested in colonial plantations and thus opted for backward integration to guarantee access to raw materials. Others, like Boehringer, but also Chininfabrik Baunschweig Buchler & Co., another big German player in quinine manufacturing, would not take the risk of owning cinchona plantations themselves. However, as this chapter will show, they still exerted considerable influence on the development of cinchona growing in the Dutch East Indies.

The history of quinine and cinchona is comparatively well known. The cinchona tree originated in the Andes Mountains in South America. During the second half of the 19th century, the British and Dutch governments transferred the tree to their Asian colonies and turned it into a plantation crop. Dutch cinchona planting on Java in the Dutch East Indies was the most successful. At the close of the 19th century, Java's plantations produced c. 90 percent of all cinchona bark available on the world market.⁶ Historians of science and knowledge have contributed heavily to our understanding of quinine and cinchona.⁷ Only a few studies, however, tackle the history of the pharmaceutical companies which produced quinine, and the historical development of the quinine market, including the emergence of the quinine

5 FEA 1/2 Friedrich Engelhorn to Fritz, Karlsbad, 31/05/1886.

6 See Andrew Goss, *The Floracrats: State-Sponsored Science and the Failure of the Enlightenment in Indonesia* (University of Wisconsin Press, 2011); Willy Dethloff, *Chinin* (Chemie, 1944); Norman Taylor, *Cinchona in Java: The Story of Quinine* (Greenberg, 1945).

7 See e.g. Gänger, *Singular*; Matthew James Crawford, *The Andean Wonder Drug: Cinchona Bark and Imperial Science in the Spanish Atlantic, 1630-1800* (University of Pittsburgh Press, 2016); Rohan Deb Roy, *Malarial Subjects: Empire, Medicine and Nonhumans in British India, 1820-1909* (Cambridge University Press, 2017); Saul Jarcho, *Quinine's Predecessor: Francesco Torti and the Early History of Cinchona* (Johns Hopkins University Press, 1993).

cartel that controlled quinine from the late 19th century onwards.⁸ With regard to the exchange of letters between Friedrich and Fritz Engelhorn, quoted above, there is also only little knowledge about the entanglements of German pharmaceutical companies with colonial cinchona growing. As Arjo Roersch van der Hoogte has shown, until the First World War, quinine production, and thus the treatment of cinchona bark from colonial plantations in the Dutch East Indies, was dominated by German companies: Jobst, Zimmer, Boehringer, and Buchler. Also, the latter two were the driving forces behind cartelization.⁹ However, it is unclear how this strong position affected cinchona-growing in the Dutch East Indies. What role did German companies play in the emergence and development of the cinchona plantations on Dutch-ruled Java?

This chapter reconstructs German quinine makers' strategies toward the risks of the resource market. It argues that Boehringer's refusal to buy Zimmer's cinchona plantations points to competing and (in the end) superseding strategies of two generations of quinine manufacturers to secure the needed raw materials. During the 19th century, the quinine market was characterized by phases of over- and underproduction of cinchona bark. This volatility constituted enormous risks for the manufacturers. The first generation of German quinine companies, Jobst and Zimmer, opted for backward integration to minimize this risk. In the early 1870s, they invested in colonial cinchona plantations and took resource production into their own hands. The second generation of German quinine producers, Boehringer and Buchler, chose a different way: They did not embrace backward integration, but also did not put all their trust into the free market either. Instead, they sought cooperation between quinine manufacturers: They formed the Quinine Convention – a cartel. This cartel

8 Arjo Roersch van der Hoogte, *Colonial Agro-Industrialism: Science, Industry and the State in the Dutch Golden Alkaloid Age, 1850–1950* (University of Utrecht, 2015); Arjo Roersch van der Hoogte and Toine Pieters, "From Colonial Agro-Industrialism to Agro-Industrialism: Game Changing Evolution of the Dutch Transoceanic Cinchona-Quinine Enterprise (1940s-1960s)," *Itinerario* 40, no. 1 (2016); Arjo Roersch van der Hoogte and Toine Pieters, "Science, Industry and the Colonial State: A Shift from a German- to a Dutch-Controlled Cinchona and Quinine Cartel (1880–1920)," *History and Technology* 31, no. 1 (2015); Arjo Roersch van der Hoogte and Toine Pieters, "Science in the Service of Colonial Agro-Industrialism: The Case of Cinchona Cultivation in the Dutch and British East Indies, 1852-1900," *Studies in History and Philosophy of Biological and Biomedical Sciences* 47, Pt. A (2014); Andrew Goss, "Building the World's Supply of Quinine: Dutch Colonialism and the Origins of a Global Pharmaceutical Industry," *Endeavour* 38, no. 1 (2014). The only scholarly history of a quinine company is Ziegler, *Jobst*. Also, there is virtually no literature on labor. See Marcel van der Linden, *The World Wide Web of Work: A History in the Making* (UCL Press, 2023), 22–27. The only work on labor is a contemporary dissertation: Antoine Cloëtta, *Le problème économique et social de la quinine* (Kreis, 1928).

9 Roersch van der Hoogte and Pieters, "Science", 10f.

put pressure on plantation companies to ensure the continuous supply of cheap bark for the manufacturers without the risk that came with operating their own plantations. Eventually, this strategy proved to be more successful than backward integration. From the late 19th century until the Second World War, a cartel, first under German, from 1914 on under Dutch control, dominated the quinine market but also safeguarded the continuing supply of cinchona bark.

The chapter provides new insights into the raw material supply of pharmaceutical companies – a topic only rarely explored.¹⁰ Also, it underlines the importance of German pharmaceutical companies in the emergence and development of cinchona plantations in the Dutch East Indies. In doing so, this chapter contributes to a broader trend in the historiography on German colonialism that highlights the involvement of German actors, and especially companies, in colonial endeavors that extended beyond the relatively short duration and limited geographical scope of the formal German colonial empire.¹¹

Quinine and the Birth of the Pharmaceutical Industry

Historical research has identified the extraction and isolation of quinine from cinchona bark as the birth of the pharmaceutical industry.¹² Cinchona bark had been used before as a remedy for all kinds of fevers. However, the discovery of quinine as the active principle and its industrialized production fundamentally changed the history of drugs, their usage, and their manufacturing. The Frenchmen Pierre Joseph Pelletier and Joseph Bienaimé Caventou were the first to isolate an alkaloid they named quinine from cinchona bark in 1820. Quickly, they built a factory to produce quinine on an

10 For exceptions see e.g. Markku Hokkanen, “Imperial Networks, Colonial Bioprospecting and Burroughs Wellcome & Co.: The Case of *Strophanthus Kombe* from Malawi (1859–1915),” *Social History of Medicine* 25, no. 3 (2012); William Beinart and Rebecca Beinart, “‘From Elephant’s Foot... To Cortisone’: Boots Pure Drug Company and *Dioscorea Sylvatica* in South Africa, C. 1950–1963,” *South African Historical Journal* 71, no. 4 (2019).

11 See e.g. Caroline Authaler, *Deutsche Plantagen in Britisch-Kamerun: Internationale Normen und lokale Realitäten 1925 bis 1940* (Böhlau, 2018); Kim S. Todzi, “Colonial Business in Postcolonial Germany: The Imperial Afterlives of C. Woermann, 1919–1945,” *Contemporary European History* First View (2024); Christina Lubinski, *Navigating Nationalism in Global Enterprise: A Century of Indo-German Business Relations* (Cambridge University Press, 2023); Felix Brahm and Eve Rosenhaft, eds., *Slavery Hinterland: Transatlantic Slavery and Continental Europe, 1680–1850* (Boydell, 2016).

12 Claire Fredj, “Pour l’officine et pour l’usine: La France et le commerce du quinquina au xix^e siècle,” *Revue d’histoire moderne & contemporaine* 66, no. 3 (2019), 110; Pierre Bélanger et al., *A Botany of Violence* (GOFF, 2021); Ziegler, *Jobst*, 19.

industrial scale and monetized their discovery.¹³ Within a decade, quinine production spread throughout Europe and North America.¹⁴

This expansion after 1820 was possible because of two reasons. First, the independence of the South American republics ended the Spanish state monopoly for cinchona bark. European traders could now buy bark in more trading centers on the continent.¹⁵ Second, malaria or the various illnesses termed “fever” not only occurred in tropical regions. Malaria was endemic in many parts of Europe and the United States until far into the 20th century. Therefore, the most important markets for quinine as an antimalarial were not colonial empires in Africa and Asia. Rather, quinine was mostly consumed in the industrializing countries of Europe and North America.¹⁶ This explains why so many companies took on the production of quinine and why this was so profitable during the 19th century.

In the German lands, quinine production was pioneered in 1823 by Friedrich Koch of Oppenheim.¹⁷ Other pharmacists and industrialists soon also started producing quinine. Within a few years, many companies were competing in the market.¹⁸ Of this first generation of quinine manufacturers, two became champions in Germany and internationally: Zimmer & Co. of Frankfurt Main started the production of quinine already in 1827, Fridr. Jobst of Stuttgart began in 1838. In the following decades, they outmaneuvered their German competitors.¹⁹ Both not only sold their quinine in Germany; Jobst exported it mostly to Italy and France. In the 1870s, the company expanded its activities to the Balkans and the Ottoman Empire.²⁰ Zimmer, in turn, made considerable profits by supplying the belligerent parties of the Russo-Turkish Wars.²¹

13 For the history of the French quinine industry see Fredj, “Pour l’officine.”

14 Fredj, “Pour l’officine,” 110; Bélanger et al., *A Botany of Violence*; Ziegler, *Jobst*, 78ff.

15 Fredj, “Pour l’officine”.

16 James L.A. Webb, *Humanity’s Burden: A Global History of Malaria* (Cambridge University Press, 2009); Randall M. Packard, *The Making of a Tropical Disease: A Short History of Malaria* (Johns Hopkins University Press, 2007). On colonial use of quinine see Daniel R. Headrick, *The Tools of Empire: Technology and European Imperialism in the Nineteenth Century* (Oxford University Press, 1981).

17 Ernst Schwenk, “Die Wiege der Pharma-Industrie stand in Oppenheim,” *Oppenheimer Hefte* 22 (2000).

18 Ziegler, *Jobst*, 79; Gabriele Huhle-Kreutzer, *Die Entwicklung arzneilicher Produktionsstätten aus Apothekenlaboratorien: Dargestellt an ausgewählten Beispielen* (Deutscher Apotheker Verlag, 1989), 176.

19 Huhle-Kreutzer, *Entwicklung*, 137.

20 Friedrich Kober, *Julius von Jobsts Lebenserinnerungen: 60 Jahre in Deutschlands Industrie und Handel* (Stähle & Friedel, not dated), 13–17; C.F. Boehringer & Soehne, *Denkschrift*, 38.

21 C.F. Boehringer & Soehne, *Denkschrift*, 40.

The other two quinine manufacturers of importance in this study, Boehringer and Buchler, belonged to a second generation of pharmaceutical companies in the quinine business. They began making quinine because it already produced huge profits.²² Buchler of Brunswick started after 1857.²³ Boehringer was founded in 1859, when the owners bought an already existing quinine factory which they moved to Stuttgart. Only in 1870 did the company move to Mannheim.

From Collected to Cultivated Cinchona Bark: The Rise of Plantations

The extraction of quinine and the industrialization of drug production changed the trade in cinchona bark in its South American homelands and the lives of the people collecting it. Demand for bark expanded massively. Newly independent states wrestled with traders and landowners over control of the bark. Collectors went into new mountain forests to find cinchona trees. Bolivia replaced Ecuador as the most important bark exporter in the 1830s – only to be replaced by Colombia in the 1850s.²⁴ Unprecedented amounts of bark entered the market. In 1840, one million pounds reached Europe. In 1860, however, Bolivia alone exported one million pounds.²⁵ Most of the bark was exported to London, due to the dominance of British trade in most parts of South America, where quinine manufacturers had their agents who bought up the raw material.²⁶ Cinchona bark was expensive as demand continued to exceed supply.

In the 1850s, the British and the Dutch governments both aimed to transplant cinchona from South America to their Asian colonies and to turn it into a plantation crop. Before, all American barks were harvested from wild trees. European demand, however, exceeded the natural populations in the Andes Mountains. Trees became scarce, and collectors constantly had to explore new regions in search of trees. This was the background for the British and Dutch attempts to create cinchona plantations. An important obstacle, however, was that South American states wanted to preserve their natural monopoly on cinchona bark and prohibited the export of seeds and live plants. Many imperial authors and authors of popular accounts

22 Fischer, *Wissenschaft*, 36–39.

23 For a history of Buchler see Buchler & Co., *150 Jahre Chininfabrik Braunschweig und die Geschichte der Unternehmungen Hermann Buchlers bis in die dritte Generation seiner Nachkommen* (self-published, 2009); Walther Buchler, *Dreihundert Jahre Buchler. Die Unternehmen einer Familie, 1651–1958* (Buchler & Co., 1958).

24 For the market for cinchona bark in 19th century Latin America see Fredj, “Pour l’officine.”

25 Henry Hobhouse, *Seeds of Change: Six Plants that Transformed Mankind* (Counterpoint, 2005), 20.

26 Fredj, “Pour l’officine”, 118.

on the history of quinine have written about the romance of those who smuggled cinchona seeds out of South America and into British India and the Dutch East Indies.²⁷ These endeavors, however, were not solely about managing the risk of disappearing supplies of bark or saving the plant and its alkaloids for humanity, as colonial propaganda and popular accounts proclaim. They were about business: Controlling the raw material for the most important drug promised enormous profits.²⁸ The British managed to establish plantations in India and on the island of Ceylon, the Dutch on Java in the Dutch East Indies. In the end, however, the Dutch won the race: In the 1880s, plantations on Java started to dominate the world market for cinchona bark.

Initially, only the Dutch government was allowed to grow cinchona. It established the government estate “Tjinjirean” in the highlands of Java.²⁹ There were several reasons behind this. First, developing a new plantation crop involves time and capital to find out about the best conditions for cultivation. Failure was expectable: First barks harvested contained only little quinine. Jobst analyzed one of the first samples for the Dutch government in 1872: It contained a maximum of 3.39 percent alkaloids and only 1.10 percent quinine. Jobst thus recommended that Java should focus on so-called “pharmaceutical barks” to be sold in pharmacies and not on high-alkaloid barks for industrial extraction.³⁰ However, the manager of “Tjinjirean”, K.W. van Gorkum, planters, and scientists employed by the Dutch colonial state managed to cultivate a hybrid (*Cinchona Ledgeriana*). Its bark contained seven percent quinine on average – much more than bark coming from South America, which contained only two to three percent quinine.³¹ Second, the Dutch colonial government had a monopoly on cinchona growing because it generally restricted private plantations in its Asian colonies. In 1867, the Dutch colonial government gave up its monopoly on cinchona planting. In the early 1870s, it also liberalized access for private

27 See e.g. Mark Honigsbaum, *The Fever Trail: The Hunt for the Cure for Malaria* (Pan Books, 2002); Hilda Knobloch, *Der Wunderbaum im Urwald: Wie die Chinarinde zum Allgemeingut der Menschheit wurde* (Wancura, 1954); Fiametta Rocco, *Quinine: Malaria and the Quest for a Cure That Changed the World* (HarperCollins, 2003). For a critique see Kavita Philip, “Imperial Science Rescues a Tree: Global Botanic Networks, Local Knowledge and the Transcontinental Transplantation of Cinchona,” *Environment and History* 1, no. 2 (1995).

28 Philip, “Imperial Science”, 191.

29 Goss, “Building”, 10; Roersch van der Hoogte, “Colonial Agro-Industrialism”; Taylor, *Cinchona*.

30 NN, “Nach einer Notiz von J. Jobst,” *Lotos* 22, September (1872).

31 Dethloff, *Chinin*, 45f. On cooperation between Dutch scientists and planters see Goss, *Floracrats*.

European individuals to colonial land.³² This led to the birth of the massive plantation economy of the Dutch East Indies. In close cooperation with the Dutch colonial state, private planters established the world's leading cinchona-planting area.³³

This successful cultivation of cinchona produced new risks for quinine manufacturers worldwide. Until then, they had all relied on wild cinchona bark from South America and bark from the first British plantations in Ceylon, obtainable for those with good connections to brokers on the market in London. Now, the emergence of plantations in the Dutch East Indies producing high-quality bark overthrew this market. The role of the London market would diminish – and new markets with better connections to the Dutch East Indies would take its place. Indeed, the market for cinchona bark shifted to Amsterdam in the following years.³⁴ This threatened the position of already existing companies with their connections and agents in London – but not in Amsterdam. Other firms might be quicker to establish new networks there. The established companies had to find ways to manage the risk of getting sidelined regarding their access to the still rare raw material.

In this situation, the two leading German quinine companies, Jobst and Zimmer, opted for the strategy of backward integration to mitigate the risk of the market shift: They established their own cinchona plantations on Java. Zimmer, the most important German quinine producer of the time,³⁵ was one of the first private investors in Java's cinchona plantations.³⁶ According to the company history of Zimmer, the motive behind backward integration was to secure an independent supply of raw materials.³⁷ In June 1876, the company hired the Dutch official G.A. Malga for the “preparation and potential implementation of a cinchona plantation in Dutch India for the account of C. Zimmer”.³⁸ Conrad Zimmer, the company's owner, tried to use already existing ties to the region to manage the risks of this new type of

32 Dethloff, *Chinin*, 45; Retno Winarni et al., “The Failure of Plantation Agriculture Transformation in Indonesia,” *History Research* 10, no. 2 (2022), 102.

33 Ziegler, *Jobst*, 87; Goss, “Building.”

34 Fredj, “Pour l'officine”, 118.

35 NN, “Quinine Manufacture in Italy and Germany,” *The Chemist and Druggist*, no. 15/04/1881 (1881).

36 In 1870, only ten planters experimented with cinchona, and 25 in 1873. Roersch van der Hoogte, “Colonial Agro-Industrialism”, 49.

37 Institut für Stadtgeschichte Frankfurt a.M. (ISG FFM) W3/S Nr. 163 Ernst Zimmer: Die Zimmers. Eine Familienchronik, 27; Historisches Archiv Roche (HAR) Boehringer 1/173 Firmenchronik, 320; NN, “Quinine”, 152; NN, *Handboek voor cultuur- en handels-ondernemingen in Nederlandsch-Indie* 2 2 (de Bussy, 1889), 9, 457.

38 Raad van Justitie te Batavia, “Wederkeerige overeenkomst. Ontbinding. Ontvankelijkheid. Schade,” *Indisch Weekblad van het Regt* 23, no. 1170 (1885), 190. All translations are mine.

investment: He planned to establish the cinchona estate on Sumatra instead of Java because he had connections to the missionaries from the Protestant *Barmer Missionsgesellschaft* that was already present on this island.³⁹ The mission society had promised Zimmer to help establish the plantation on Sumatra, especially regarding the purchase of land and the recruiting of labor. Additionally, the missionaries had agreed to function as overseers and advisers.⁴⁰ However, since, for now, Sumatra proved unsuitable for cinchona cultivation,⁴¹ Malga established a plantation called “Argasari” in the west of Java, the heartland of the emerging cinchona plantation area.⁴² “Argasari” became part of the Kina-Cultuurmaatschappij, a company in which Zimmer was among the main shareholders.⁴³ 200 people from Java worked on this plantation in 1881.⁴⁴

Jobst entered the plantation business in 1879. The company bought a plantation called “Daradjat” which became part of the Kinacultuur-Maatschappij “Cinchona”.⁴⁵ Since cinchona still was a new plantation crop and therefore difficult to cultivate, Julius von Jobst, the owner, secured an important coup: On a journey to Java, he convinced K.W. van Gorkum, the former manager of the government’s cinchona plantation, to become the manager of “Daradjat”. Therefore, Jobst employed one of the few planters in Java with proven experience in cinchona planting.⁴⁶

The pharmaceutical companies of Jobst and Zimmer became part of the “plantation complex” – an economic system of monocultural cash crop production, controlled by European (or U.S.) capital, and based on comparatively cheap access to land and labor, provided by the colonial state.⁴⁷ More often than not, this system relied on violence to force people off their land and to coerce people into bonded forms of labor. During the 19th century, this system, born in the Caribbean, spread across the world.⁴⁸ In

39 Conrad Zimmer was the banker of the Home Mission (*Innere Mission*) which aimed at improving living conditions of the German poor. ISG FFM W3/S 163 Die Zimmers. Eine Familienchronik, 32.

40 Raad van Justitie te Batavia, “Wederkeerige overeenkomst”, 190f.

41 Cinchona cultivation took hold on Sumatra during the interwar period. See Dethloff, *Chinin*, 147.

42 Raad van Justitie te Batavia, “Wederkeerige overeenkomst”, 191.

43 Roersch van der Hoogte, “Colonial Agro-Industrialism”, 125f.

44 NN, “Quinine.”

45 Ziegler, *Jobst*, 87; Kober, *Lebenserinnerungen*, 23.

46 Kober, *Lebenserinnerungen*, 23.

47 Philip D. Curtin, *The Rise and Fall of the Plantation Complex: Essays in Atlantic History*, 2nd ed. (Cambridge University Press, 1999).

48 Curtin, *Rise*; Kris Manjapra, “Plantation Dispossessions: The Global Travel of Agricultural Racial Capitalism,” in *American Capitalism: New Histories*, ed. Sven Beckert and Christine Desan (Columbia University Press, 2018); Corey Ross, “The Plantation Paradigm: Colonial Agronomy, African Farmers, and the Global Cocoa Boom, 1870s–1940s,” *Journal of Global History* 9 (2014).

this process, capitalists and the colonial state turned the Dutch East Indies into one of the most important plantation frontiers. On Java, plantations gradually supplanted the system of forced cultivation (*cultuurstelsel*).⁴⁹ However, land for plantations was acquired by morally ambiguous or even criminal means.⁵⁰ The labor force on the plantations of Java was nominally free. But during the 19th century, “free labor” comprised not only wage labor but various forms of bondage: On Java’s cinchona plantations, planters recruited wage laborers among landless peasants, paid local Javanese authorities for hiring out subjects and servants, or kept their laborers in debt-bondage. On the Outer Islands like Sumatra, the workforce on cinchona plantations, like on other estates, was mostly contract laborers from Java, China, or India.⁵¹ The bark was mostly harvested by women and children.⁵²

It is unclear if the other two major German quinine manufacturers, Boehringer and Buchler, also invested in cinchona plantations. In 1988, there was talk in the Boehringer company that the firm had indeed possessed its own cinchona plantation in the Dutch East Indies.⁵³ However, there is no proof of this in the surviving documents from the 19th century in the archives of Boehringer. In a general sense, Boehringer and Buchler were not against owning plantations to secure their raw materials. For the production of cocaine, they formed a joint venture and founded their own coca plantation on Java.⁵⁴ Also, Buchler sent out a representative to South America in 1890 to fathom if the company should invest in coca and cinchona plantations there.⁵⁵ Boehringer, in turn, had contacts with cinchona plantations in the British colony of Ceylon and in independent Bolivia.⁵⁶ Also, there is archival evidence that both Boehringer and Buchler tried to secure a stable resource supply from Java in 1887 by making contracts with cinchona plantation companies. According to Walther Buchler, his

49 Jan H. Oudejans, “Studies on IPM Policy in SE Asia: Two Centuries of Plant Protection in Indonesia, Malaysia and Thailand” (University of Wageningen, 1999), 18ff.

50 Cloëtta, *Problème*, 62.

51 *Ibid.*, 65–75. On 19th century forms of bonded labor in general see Alessandro Stanziani, “Introduction: Labour Institutions in a Global Perspective, from the Seventeenth to the Twentieth Century,” *International Review of Social History* 54, no. 3 (2009).

52 Van der Linden, *World*, 22–27.

53 HAR Boehringer 1/351 Produktion Chemie, 26.08.1988.

54 Buchler, *Dreihundert*, 105.

55 *Ibid.*, 102.

56 *Ferguson’s Ceylon Directory* (Associated Newspapers of Ceylon, 1891/92), 314; Walther Freudenberg, *Von deutscher Arbeit auf Ceylon: Erinnerungen und Erfahrungen des Hauses Freudenberg & Co., Colombo, seit 1873* (Ausland und Heimat, 1926), 26; Louis Schäfer, “Chinarinden aus den Plantagen im Gebiete des Mafiriflusses in Bolivien,” *Archiv der Pharmazie* 67, no. 226 (1888).

company was the first manufacturer that concluded such a supply contract.⁵⁷ Boehringer, in turn, went into conversation with the Rotterdam'sche Kina Maatschappij.⁵⁸ However, in the long run, Boehringer and Buchler chose a different strategy to secure raw material: They founded a cartel.

Building the Quinine Cartel

The reason why both companies chose this strategy was the turmoil on the cinchona bark market caused by the rise of Java's plantations. When Java began to dominate the world market for bark in the 1880s, it did not only drive out wild South American bark. It also destroyed the British cinchona plantations on Ceylon, where planters could not compete with high quality barks from Java. South American gatherers just stopped going into the forests and the effects on the market were nil. Ceylon planters, however, chopped down their trees and replanted their land with tea.⁵⁹ As millions of trees were felled, massive amounts of bark became available on the world market.⁶⁰ Suddenly, there was much more bark available than the pharmaceutical companies could use. Thus, the price for bark dropped. Within a few years, it fell from one shilling two pence per pound of bark to only half a penny.⁶¹ Accordingly, the price for quinine also fell drastically and reached its bottom in 1887.

Cheap bark turned quinine into a mass product available to ever more people in Europe, North America, and beyond. But cheap bark put some companies out of business. Before, companies used to sell little quinine at high prices. Now, profit had to come from high sales volumes. However, many companies did not possess the production capacities for this strategy. Especially the first generation of quinine manufacturers suffered: Both Jobst and Zimmer were financially in dire straits. The bark crisis was the background of the proposed merger of Jobst, Zimmer, and Boehringer in 1886. Also, the bark crisis explains why Friedrich and Fritz Engelhorn of Boehringer were unwilling to take over Zimmer's cinchona plantation. Low quinine and bark prices had transformed cinchona plantations on Java from a lucrative investment into a liability. The proposed merger failed. In

57 HAR Boehringer 1/469 Buchler to Engelhorn, Braunschweig, 27/08/1937.

58 FEA 1/35 Sapper to Boehringer, Amsterdam, 23/09/1887.

59 A.C.L. Ameer Ali, "Cinchona Cultivation in 19th Century Ceylon," *Modern Ceylon Studies* 5, no. 3 (1974).

60 Dethloff, *Chinin*, 27–31; Ch. Boehringer, *Ein Menschenalter kolonialer Erfahrungen auf der Insel Ceylon: Wissenswertes über den Anbau, die Bedeutung und Verwertung wichtiger tropischer Erzeugnisse* (Dachsel, 1930); Chr. Böhringer, "Cinchona einst und jetzt," *Tropenpflanzer* 30, no. 5 (1927).

61 Boehringer, *Menschenalter*, 15.

1887, Jobst and Zimmer alone merged into the Vereinigte Chininfabriken Zimmer & Co.⁶²

In the 1890s and after, the survivors of the crisis stayed away from the plantation business. Instead, the manufacturers formed a cartel to secure their resources. Cartels, or conventions, were very common in the history of the pharmaceutical industry – and also not unheard of in the quinine business. The first short-lived attempt to form a quinine cartel dated back to 1865, when Boehringer, Jobst, Koch und Zimmer tried to regulate the price for quinine in the German lands.⁶³ In 1883, another effort was made by Boehringer, Buchler, and Zimmer. With the crisis in the bark market and the fall of quinine prices, however, the company directors more and more felt the need for a cartel to save their profits. In 1888, 1889, and again in 1890/91 manufacturers tried to form a cartel. In 1892, a stable cartel emerged under the auspices of the Deutsche Gold- und Silber-Scheideanstalt (DEGUSSA), a chemical company that not only had acquired a small quinine factory (Chininfabrik Auerbach), but also specialized in the administration of conventions in the chemical and pharmaceutical industry.⁶⁴ In December 1892, one DEGUSSA employee, Hugo Andreae, wrote to the U.S. quinine manufacturer Powers & Weightman: “I think there was never a better moment [...] to try a serious convention”: All German manufacturers had common interests in Java and in pushing competitors out of the market. Boehringer as well as Buchler faced changes in management. “[A]ll this”, Andreae concluded, “makes the German manufacturers willing to unite their interests.”⁶⁵ Indeed, Boehringer, Buchler, and Chininfabrik Auerbach now formed a stable convention. In the following years, other manufacturers joined the cartel: the British company of Howards & Sons in 1894, Zimmer in 1897, several French, Dutch, and U.S. companies in 1907. However, even though the cartel internationalized, it continued to be controlled by the German companies – most importantly by the second generation of manufacturers: Boehringer and Buchler.⁶⁶

Boehringer and Buchler did not own cinchona plantations in the Dutch East Indies. However, as leaders of the cartel, they nevertheless exerted considerable influence over the development of the industry and presumably also shaped the social relationships and especially working conditions

62 Ziegler, *Jobst*, 132.

63 The history of the cartel is based on HAR Boehringer 1/471 Sieger: *Resumé de l'histoire de la convention de quinine et des événements qui ont précédé à l'établissement de celle-ci*, Baden-Baden, 28/09/1937.

64 Mechthild Wolf, *Von Frankfurt in die Welt. Aus der Geschichte der Degussa AG* (Degussa, 1988), 33ff.

65 Evonik Konzernarchiv. Degussa DL 3.1. Schneider/1 Andreae to Powers & Weightman, 21/12/1892.

66 Roersch van der Hoogte and Pieters, “Science, Industry and the Colonial State.”

on the plantations. Thus, although German companies did not own many of the plantations in the colony, their business strategies nonetheless exerted significant influence on the ground, making them participants in colonial exploitation.

The formation of a stable, growing, and more and more powerful cartel in the aftermath of the bark crisis led to a long-lasting conflict between the pharmaceutical companies and the planters on Java. The cartel had a two-faced agenda: On the one hand, its goal was to stabilize the price for quinine at a high level. To this end, it eliminated competitors outside of the cartel. On the other hand, it tried to secure cinchona bark for its members. In fact, both parts of the agenda were linked: The cartel aimed at a resource monopoly. In 1895, Walther Buchler traveled to Java as “representative of the united German quinine factories and of the English manufacturer Howard”, to secure a contract with “*all* cinchona planters” for five years.⁶⁷ Not only should they furnish their complete harvest to the cartel. Plantations were also supposed to half their yearly output in bark.⁶⁸ This monopolization and tightening of resource supply would have strengthened the cartel, since it would have made it difficult for non-members to buy bark. However, the planters were reluctant to agree. Already, the expansion of the cartel meant that they had fewer and fewer options where to sell their product. When the cartel became the only force on the market, they feared that its members would be able to dictate the prices for bark.

For almost two decades, the planters and the cartel were locked in conflict. The pressure from the cartel, personified by Walther Buchler, caused the self-organization of the planters.⁶⁹ In their fight against the cartel, they even created their own quinine factory on Java in 1896: the Bandoengsche Kininefabriek, supposed to be an additional outlet for the bark harvested by the now united cinchona planters.⁷⁰ Simultaneously, the cartel grew in strength. In 1907, the French manufacturers, but also the two Dutch companies, Amsterdamsche Chininefabriek and Nederlandsche Kininefabriek, and the American firm Powers Weightman Rosengarten joined the German cartel. One of the main goals of the united manufacturers was to fight against the planters’ factory. They paid high prices for bark which many planters could not resist. In 1912, the Bandoengsche Kininefabriek gave in and became part of the cartel.⁷¹

67 NN, “Kina,” *Pharmaceutische Weekblad* 32, no. 10 (1895). Emphasis in the original. See also Buchler, *Dreihundert*, 106.

68 NN, “Kina”.

69 Roersch van der Hoogte, “Colonial Agro-Industrialism”, 71f.

70 *Ibid.*, 87–91.

71 HAR Boehringer 1/471 Sieger: Resumé, Baden-Baden, 28/09/1937.

On 5th May 1913, the cartel also won the fight against the planters: These agreed to send all their bark to the cartel and to limit the amount of bark harvested – the deal proposed already in 1895. The cartel was too powerful, and the planters had few other options but to agree. The so-called “Kina-Overeenkomst” put all bark from the Dutch East Indies off the market. From now on, in practice, there was neither free commerce of bark, nor of quinine. The planters received several guaranties: Manufacturers were obliged only to buy their bark; and the planters received a fixed share of three-fifth of the sales of quinine produced from their bark.⁷² It was the ultimate control of risk. Cartelization continued after the First World War. However, due to the defeat of the German Empire, the Dutch manufacturers emerged as leaders of the cartel in the interwar period. The Dutch-led cartel ruled the market until into the Second World War, when Japanese forces occupied Java in 1942.

Conclusion

This chapter has shown that German quinine manufacturers pursued two different strategies to secure their resource supply, both of which positioned them as powerful players in the cinchona industry of the Dutch East Indies. Triggered by the emergence of cinchona cultivation in European colonies in Asia, the leading manufacturers Jobst and Zimmer, part of the first generation of firms, played an important role in the establishment of cinchona planting in the Dutch East Indies. After a drop in prices for both cinchona bark and quinine, the second generation of German quinine manufacturers, Boehringer and Buchler, concluded that owning cinchona plantations was too risky. To secure their resources, they joined forces with other pharmaceutical companies and formed a cartel. Over the course of twenty years, the cartel forced the planters in the Dutch East Indies into cooperation, creating a cartel of pharmaceutical companies and colonial plantations which ruled the market for cinchona bark and quinine for decades.

However, during the interwar period, many pharmaceutical companies outside of the cartel tried to enter the lucrative market for quinine. Since the cartel controlled the world's bark supply, they had to establish their own cinchona plantations: the American company Merck & Co. in Guatemala, the Japanese Hoshi Pharmaceutical Company in Taiwan, Union Chimique Belge and Sandoz in the Belgian Congo, and Hoffmann-La Roche in the Dutch East Indies.⁷³ With few exceptions, these companies also chose to

72 Roersch van der Hoogte, “Colonial Agro-Industrialism”, 98ff.

73 Frederic Rosengarten, *History of the Cinchona Project of Merck & Co., Inc. and Experimental Plantations, Inc. 1934-1943* (Merck & Co, 1944); Timothy M. Yang, *A Medicated Empire: The Pharmaceutical Industry and Modern Japan* (Cornell University Press, 2021), 185–217; Kenneth Bertrams, *UCB: The First Ninety Years 1928-2018* (Lanoo, 2018);

establish their plantations in regions under colonial rule.⁷⁴ It seems plausible that this preference was part of the security strategy of pharmaceutical companies. After the Second World War, the cartel members also stopped sticking to their anti-plantation policy. After the decolonization of Indonesia and the (temporary) breakup of the cartel, in the late 1950s and early 1960s, Boehringer and Buchler, but also the Dutch manufacturers bought plantations in the colonial Belgian Congo, later in independent Congo, and elsewhere.⁷⁵ Apparently, the question “Should we own a plantation?” could only be answered temporarily.

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74 Sven Beckert et al., “Commodity Frontiers and the Transformation of the Global Countryside: A Research Agenda,” *Journal of Global History* 16, no. 3 (2021).

75 Tristan Oestermann, “Kings of Quinine: The Pharmakina Company and West German Pharmaceutical Production in Postcolonial Zaire during the Long Boom,” *Journal of Imperial and Commonwealth History* 52 (2024); Buchler & Co., *150 Jahre*.

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3 “The Art Trade Here Is Possibly Even More Dangerous Than in Europe” – Risk Perceptions by German Art Dealers, Connoisseurs, and Collectors in the Japanese and Chinese Art Markets 1900–1940s

Paul Franke

3.1 Introduction – The Sellout of China?

In 1928, *Cicerone*, a German journal dedicated to collecting and buying art and antiquities, published an article about not one, but two large sales of Chinese and East Asian art. The author reported that the two “big Berlin China-Houses, Edgar Worch and Dr. Otto Burchard,”¹ would present their latest acquisitions at the same time. This situation was highly unusual. Competition in the Asian art and antiquities sector was fierce, and two auctions would surely create an even more intense climate. *Cicerone* was also surprised that enough wares were available to hold two sales. The author highlighted a political and economic risk that would normally make two sales at the same time unlikely: the civil war in China. It further identified risk factors, such as the harsh punishments issued by various generals and warlords, international competition, and the fact that “the sellout [of art] in China in regard to movable objects is already over.”² It was therefore not only surprising that Edgar Worch and Otto Burchard could present any Asian art at all, but that “the objects compared to similar acquisitions by leading Japanese and American companies.”³

1 Unless otherwise stated, all translations are by the author.

2 Leonard Adam, “Neuerwerbungen aus China, I.,” *Der Cicerone - Halbmonatsschrift für Künstler / Kunstfreunde und Sammler* 20 (1928): 102–103. German Original: “weil der eigentliche Ausverkauf in China längst beendet ist, soweit es sich um bewegliche Dinge und nicht um Ausgrabungen handelt.”

3 *Ibid.*, 102–103. German Original: “[...]Diese Werke halten jeden Vergleich mit den ähnlichen Einkäufen führender japanischer und amerikanischer Firmen stand.”

This sale also indicates the shift in the approach to Chinese art in Germany since 1900. In the 19th century, Chinese artworks had largely been seen as curiosities with aesthetic but limited artistic value. Around the turn of the century, they were framed as ethnologically interesting, yet they were still denied an identity as an artifact. In the 1920s, they were increasingly seen and treated as art. This shift went hand in hand with the establishment of new acquisition channels. In the past, individual travelers, soldiers, diplomats and political agents had supplied objects from Japan and China to Germany, but now professional, commercial art dealers, such as Edgar Worch and Otto Burchard, served a market of distinguished connoisseurs.

However, the risks identified in the article were not what most art dealers regarded as their biggest obstacles. For them, war and political turmoil represented an opportunity not a hindrance to accessing objects. Their primary security concerns were being deceived by forgeries, not procuring internationally coveted objects or being taken advantage of by Japanese and Chinese dealers, whom they regarded as untrustworthy in accordance with their colonial attitude.

This chapter investigates these perceived risks and what entrepreneurs, collectors, and connoisseurs regarded as unsafe when doing business in Asia. Between 1900 and 1940, buying, selling, collecting, and evaluating Asian art was intrinsically linked with concepts of colonialism, imperialism, and racism. German assessments of the Chinese and Japanese markets were shaped by perceived racial, cultural, and colonial superiority.

This chapter will discuss the new interest in Japanese and Chinese art around 1900 and then trace the shift in the buying and acquisition of Japanese and Chinese art from the curio collecting of the 19th century to a new form of collecting regarded as ‘proper’ by the German museum authorities. German authorities and collectors soon felt they were left behind by other imperial powers, especially after the so-called “Boxer Rebellion,” which German agents used to acquire a large number of objects. This chapter will then examine individual agents, dealers, and museum authorities, and show how they identified international competition and forgeries, linking them both to Asian art dealers. These dealers were regarded as obstacles and risks to the German colonial project. Finally, this chapter will explore how the advent of the Nazi regime altered which German entrepreneurs were able to gain access to Japanese and Chinese art objects.

3.2 Silence In the Archives

It is notoriously difficult to write a history of the art market because sales, transactions, and economic dealings occurred by way of personal interactions and often went undocumented. Art dealerships and companies relied on a small number of individuals supplying them and these networks often

existed in the form of close personal bonds, with strategic ambiguities and implicit meanings in communications.⁴ Attempting to write an economic history and record of businesses involved in Asian art collection is therefore a challenge, especially as corporate archives are mostly either inaccessible or only fragments of them still remain.

There is also a notable lack of Japanese and Chinese voices. Sometimes, it is possible to read sources that offer information about the ways Asian actors exercised political, economic, and cultural agency. However, in many other cases the imperial perspectives in the German archives obscure these voices and only indicate that German dealers and connoisseurs discredited the sophisticated local art markets and their participants as security risks and colonial subjects.

It is crucial not to reproduce the racist and colonial notions in the form of historical assertions concerning risks in the Asian art market. Economic history faces a similar challenge as art history when examining Japan, China, and other Asian countries. As King, Perry, and Dubridge argued, even the classification of art (as African, Asian, Indian, Chinese, Japanese, etc.) is primarily used to classify objects as belonging to spaces that Europeans and North Americans pervaded as part of global imperialism.⁵ Therefore, art historians regard collecting as a quintessential practice of colonialism and collections as “imperial displays”⁶. Thus, art market research is no longer limited to provenance analysis, but as Zimmerer, Odenwald, and Todzi argue, it should also be opened up to new historical debates.⁷ Economic history is crucial as Akiko Takesue points out. Takesue argues that “external factors,”⁸ such as dealerships and their local agents, were not just conduits but they also exercised agency in the formation of collections that were not their own.⁹ Merchants, dealers, missionaries, and soldiers collected, bought, sold, trafficked, and plundered objects within colonial structures that were sustained and legitimized by ideologies of racial hierarchies.

4 Paul Franke, “Closed Doors, Sealed Lips: Emotional Practices of Legal and Illegal Markets in Early Twentieth-Century Germany,” in *Capitalist Cold: Emotions and the Economy in Europe and the United States*, ed. Agnes Arndt and Kerstin Maria Pahl (Routledge, 2025), 206–211.

5 Catherine King et al., “Introduction,” in *Art and Its Histories - Views of Difference: Different Views of Art*, ed. Catherine King (Yale University Press, 1999) 7–14.

6 Bill Ashcroft et al., *Post-Colonial Studies: The Key Concepts* (Taylor & Francis, 2007), 103.

7 Jürgen Zimmerer et al., “Displacing/ Displaying the Objects of Others: Towards a Holistic Approach,” in *(Post-)Colonial Provenance Research Displacing and Displaying the Objects of Others: The Materiality of Identity and Depots of Global History*, ed. Jürgen Zimmerer et al. (DeGruyter, 2025), 19–22.

8 Akiko Takesue, “Private Collections as Collective Operation: Art Dealers’ Impacts on the Formation of the Van Horne Japanese Ceramic Collection,” *Journal for Art Market Studies* 3 (2018): 2.

9 *Ibid.*, 2–4.

Although Germany's commercial art dealers represented a somewhat new group on the market, they formed and maintained their own networks and risk perceptions based on these foundations.¹⁰

3.3 New Forms of Collecting, Economic Adaptation, and Imperial Competition

In 1858, the so-called Perry Expedition used military violence to force Japan to end its self-imposed isolationism. In the aftermath of this forced opening, Europe developed a new interest in Japanese art and culture, collectively described as Japonisme. In Britain, music halls, theaters, and private households began displaying artifacts from Japan or items they believed to be in “Japanese style”. However, there was little interest in exploring Japanese culture on its own terms or learning the artefacts' history. The otherness and exoticism drove the appreciation.¹¹ As Checkland writes, “By admiring Japanese culture the British were giving it credence and bringing it into the wider world. But they still retained their certain opinion that Japan, being an underdeveloped country, could not equal the British achievement.”¹² Admiration for the exotic should not be considered as actually combating colonial and racist attitudes. Asian objects were seen as pre-industrial treasures, only valued because they appealed to European aesthetics.¹³

This stance was also reflected in acquisition methods. In the second half of the 19th century, white Europeans or North Americans haggled with small shops, traders, and temples for objects they liked, despite knowing almost nothing about them.¹⁴ Indeed, many Europeans were not interested in Asian art history, but only in specific objects.¹⁵

Before 1900, “curio shopping” was regularly undertaken by Germans travelling through Asia. During the Prussian diplomatic mission to Japan in

10 Nils Fiebig, “‘Exotische Kunst’ in Deutschland: Händler, Kritiker, Sammler und Spekulanten im ersten Drittel des Jahrhunderts,” *Transfer-Zeitschrift für Provenienzforschung und Sammlungsgeschichte / Journal for Provenance Research and the History of Collection* 2 (2023): 135–138.

11 Olive Checkland, *Japan and Britain after 1859: Creating Cultural Bridges* (Routledge, 2003), 122.

12 Ibid.

13 Ibid., 121–125.

14 Ibid., 185–187; Steffi Schmidt, “Fritz Rumpf und die Erforschung des japanischen Holzschnitts (1924–1941),” in *Du verstehst unsere Herzen gut: Fritz Rumpf (1888 - 1949) im Spannungsfeld der deutsch-japanischen Kulturbeziehungen*, ed. Hartmut Walravens (VCH, Acta Humaniora, 1989), 131.

15 K. Ian Shin, “The Chinese Art ‘Arms Race’: Cosmopolitanism and Nationalism in Chinese Art Collecting and Scholarship Between the United States and Europe, 1900–1920,” *The Journal of American-East Asian Relations* 23, no. 3 (2016): 234.

1860–1861, the delegation combined day trips with social events and curio shopping. On numerous occasions, Prussian diplomats bought items from Japanese curio shops alongside colonial wares and colonial souvenirs.¹⁶ Even in official reports, the delegation praised the shops in Edo over those in Nagasaki, especially since the latter sold items of obviously questionable quality and forgeries clearly made for the European market.¹⁷

Many of these practices continued during the German Empire. Japonisme enjoyed its greatest popularity during the Empire's "Boom Years", the period from 1871 to 1873. Although Japanese prints were sold in Berlin from 1857, they became much more popular during the 1870s. Germany's Japonisme was also marked by a very close alignment to colonial wares: tea shops and establishments specifically selling colonial wares had a side hustle in Japanese art and antiquities (or what they considered as such). Buying a Japanese print, Korean ceramics, or a Chinese painting was a seemingly natural extension to buying tea, silks, or spices.¹⁸ For example, China-Bohlken, a store owned by Theodor Bohlken (1884–1954), featured four floors: a department for teas and herbs with a dining area, and three sections with art objects on display and for sale. Bohlken became one of the most influential dealers of Asian art, but spatially and historically the company and its owner have been linked to a strong colonial legacy as an "Asian colonial ware shop" (*Kolonialwarenladen*).¹⁹

Forgeries or inauthentic objects were initially not seen as a security issue since German buyers were not concerned with authenticity, but with the aesthetics of the objects. Only after these attitudes changed, and museums, professional art dealers, and a new, albeit still colonial, reading of Chinese and Japanese art became established, did the question of authenticity become much more prevalent.

In Japan and China, the market adapted to European and North American demand. However, many Europeans started regarding these attempts at economic adaptation as a risk factor and as a fraudulent practice. As early as 1873, the Japanese Meiji government actively pursued the mass manufacturing of objects for international export, especially the ceramics that "Westerners" were so fond of.²⁰ Even before 1900, those with a specialized interest in Asian art lamented that most travelers and collectors were generally attracted to what they deemed mere imitations. As British connoisseur

16 Albert Berg, ed., *Die preussische Expedition nach Ost-Asien: Nach amtlichen Quellen* (Decker, 1866), 189.

17 *Ibid.*, 192.

18 Patrizia Jirka-Schmitz, "The Trade in Far Eastern Art in Berlin during the Weimar Republic (1918–1933)," *Journal for Art Market Studies* 3 (2018): 1–2.

19 *Ibid.*

20 Checkland, *Britain and Japan*, 44–45.

James Abbot McNeill Whistler (1834-1903) wrote, many objects were now neither “Western” nor “Asian”.²¹ The Japanese effort to supply the Western market was interpreted as a regretful development because it no longer conformed to their image of authentic Japanese culture.²²

Many Chinese and Japanese art dealers in the early 20th century nonetheless expanded their businesses, gaining access to European and North American markets.²³ Japanese art dealers enjoyed a head start as the Meiji Government not only supported the production of ceramics but in the latter half of the 19th century also subsidized the export of art works.²⁴ For example, the globally operating Yamanaka Company, established in Osaka, expanded to New York, Boston, Chicago, and Paris. The Chinese art market developed differently: in imperial China, art served primarily to show a moral, political, and cultural distinction. Art was traded, albeit in closed social circles, which Europeans and North Americans regarded as archaic. Today, some contemporary scholars understand the practice as outside the “market in a modern sense”²⁵.

The adaptation to Western commercial practices was also linked to violent, colonial incursions, such as the Opium Wars (1839-1842, 1856-1860), which in turn led to a phase of intense globalization in late Imperial China. In its aftermath, Chinese art dealers began cooperating with Western dealers and auction houses. China’s first auction house was founded in Shanghai in 1874. Many others followed but all were owned and operated by entrepreneurs from colonial and imperial powers, such as Britain, France, Denmark, and Japan. It was only around 1900 that Chinese art dealers, especially around Tianjin, began following Western auction and trading rules.²⁶ Some individuals, such as Ching Tsai Loo (1880– 1957), known as C.T. Loo, became very influential art dealers in the wake of these developments. Loo built his own business primarily in France, establishing a network between Washington, Paris, and Shanghai.²⁷

21 Ibid., 115.

22 Ruth B. Phillips and Christopher B. Steiner, “Art, Authenticity, and the Baggage of Cultural Encounter,” in *Unpacking Culture: Arts and Commodity in Colonial and Postcolonial Worlds*, ed. Ruth B. Phillips (California University Press, 1999), 52–63.

23 Takesue, “Private Collection,” 13.

24 Masako Yamamoto Maezaki, “Innovative Trading Strategies for Japanese Art,” in *Acquiring Cultures: Histories of World Art on Western Markets*, ed. Bénédicte Savoy et al. (DeGruyter, 2019), 226–228.

25 Li Ma, *China’s Art Market since 1978: Regional Entrepreneurship and Global Impact* (Palgrave Macmillan, 2023), 31.

26 Ibid., 8–33.

27 Dorota Chudzicka, “The Dealer and the Museum: C. T. Loo (1880–1957), the Freer Gallery of Art, and the American Asian Art Market in the 1930s and 1940s,” in *Kunst sammeln, Kunst handeln - Beiträge des Internationalen Symposiums in Wien*, ed. Eva Bliminger and Monika Mayer (Böhlau, 2012), 244–248; Najiba Choudhury, “Seizures and Liquidation Sales in the United States during World War II: Tracking the Fate of Japanese Art Dealership, Yamanaka & Company, Inc.,” *Journal for Art Market Studies 2* (2020): 1–5.

As Kaufmann and North note, postcolonial readings of these exchanges allow for a nuanced view of the trade and production of art, “On the one hand in both Europe and Asia markets for specific cultural products emerged locally, and at the same time responded to global exchange; global exchange of objects affected the domestic production of arts and crafts in both Europe and Asia.”²⁸ Japonisme and Chinoiserie were as much shifts in taste as they were changes in reciprocal cultural, economic, and violent relationships.²⁹

Germany largely lacked the kind of commercial links to China that Britain, France, the U.S., and increasingly Japan had established. In the U.S., the Meiji Government supported the opening of art dealerships in San Francisco in 1876, while German dealers often worked for French companies and Germany was dependent on its growing museum infrastructure and individual connoisseurs.³⁰ This issue grew as interest in Chinese art slowly but surely began to overtake Japonisme in the German Empire. This shift in interest was not merely a change of focus in a regional sense, but also in how Japanese and Chinese art was seen generally.³¹ The reasons are multifaceted: Japanese art was now judged to be a mere imitation of much older Chinese art and educated German connoisseurs began regarding Buddhism and ancient Chinese art as irrational and almost Romantic, as opposed to classicism and by extension to Greco-Roman culture. They connected a supposedly emotionally rich and romantic, anti-classicist German culture with ancient Chinese Buddhism, asserting that they both were the opposite of “Western culture.”³² This understanding of China and its art was ultimately much more about German superiority than the appreciation of another culture.³³

This shift also changed collecting and the security issues associated with it. Collectors wanted authentic art, not bought during individual touristic travel, but systematically acquired. Companies and dealers now required local agents with access to art objects, market knowledge, and an “eye” to spot what the buyers in Germany, be it museums or individual connoisseurs, regarded as forgeries.

28 Thomas Da Costa Kaufmann and Michael North, “Introduction,” in *Artistic and Cultural Exchanges between Europe and Asia, 1400–1900: Rethinking Markets, Workshops and Collections*, ed. Thomas Da Costa Kaufmann and Michael North (Ashgate, 2010), 3.

29 *Ibid.*, 3–5.

30 Dietrich Seckel, “Die ostasiatische Kunst und Kunsterziehung der Vereinigten Staaten,” *Jahrbuch für Amerikastudien* 14 (1969): 43; Jirka-Schmitz, “The Trade,” 4.

31 Dorota Chudzicka, “The Dealer,” 243.

32 Wjia Li, “Zwischen Romantik und Orientalismus: Ostasiatische Kunstgeschichte in der Weimarer Republik am Beispiel von Karl With und Alfred Salmony,” *German Studies* 38, no. 2 (2015): 531–554, 545–548.

33 *Ibid.*, 548–49.

3.4 “He Had Nothing But His Eye and His Taste to Face the Risk of the Chinese Art Market” – Risk Assessments and Acquisition Strategies by German Dealers and Collectors

The 1928 *Cicerone* article quoted in the introduction of this chapter stressed that political instability, lack of available objects, and competition made the parallel sales by Otto Burchard and Edgar Worch such a surprising event. However, only the latter two were of real concern for many Germans dealing in the Chinese art market. Especially, the newly founded museums in Germany, such as the Ethnological Collection and the Asian Art Museum in Berlin, regarded war and political turmoil as conducive to acquisition.

As provenance researcher and historian Christine Howald notes, “During war, art markets are often booming. Wartime means a collapse of order, and in times of chaos many artifacts are translocated and end up in new hands.”³⁴ In the German case, the so-called “Boxer Rebellion” represented an opportunity to acquire coveted objects. The military conflict with Chinese imperial troops and the Yihetuan (also known as the Society of Righteous and Harmonious Fists) between 1899 and 1901 was a political watershed moment for German colonialism and was regarded as an opportunity for Wilhelmine Germany to assert itself in the sphere of colonial powers.³⁵

The intervention also allowed German actors to engage in an “economy of plunder”³⁶. Mass violence was not a risk to German collecting interests but rather a possibility to gain a foothold on the market. When the so-called “Anti-Boxer Alliance” (Germany, Japan, Russia, Britain, France, USA, Italy, and Austria-Hungary) occupied Beijing in autumn 1900, the German legation consul of Tianjin, Baron von der Goltz (1843-1916) wrote an urgent letter to the imperial privy council in Berlin. He stressed that Paris and London would be full of ancient Chinese art because Germany’s imperial rivals were destroying and plundering palaces and temples. Artifacts of considerable worth were being destroyed or offered on markets in Beijing and Tianjin, so Germany would be too late to take its share, if the government did not make any serious acquisition attempts. The government thus allocated 10,000 Marks to send an expert to China and buy as much art as possible with the assistance of the German military.³⁷

34 Christine Howald, “The Power of Provenance: Marketing and Pricing of Chinese Looted Art on the European Market” in *Aquiring Cultures*, ed. Savoy et al., 1.

35 Folker Reichert, “Europas heiligste Güter: Wilhelm II., Hermann Knackfuß und die Gelbe Gefahr,” *Historische Zeitschrift* 318, no. 3 (2024): 552–555.

36 Ibid.

37 Niklas Leverenz, “From Berlin to Beijing: F.W.K. Müller and the Acquisition of Chinese Art 1901,” *Monumenta Serica: Journal of Oriental Studies* 66, no. 2 (2018): 466–468.

For this mission Friedrich Wilhelm Karl Müller (1863–1930), the directorial assistant of the Ethnological Museum in Berlin, was selected. He left Germany in early 1901 and spent five months in China. Müller worked closely with German Field Marshal Alfred Graf von Waldersee (1832 – 1904), overall commander of the expeditionary force, to secure valuable objects for the ethnographic collection. He benefited from the shifting order caused by mass violence during the “Boxer Rebellion” and admitted his focus on procuring objects that “could not be acquired under normal [peace time] circumstances, or only with great difficulty.”³⁸

In hindsight, many German buyers of Asian art regarded the “Boxer Rebellion” as a profitable moment but also something of a missed chance. Men, such as Ernst Grosse (1862–1927), an ethnologist who spent many years in Japan and traveling in China to buy art, lamented that European rivals had gained many more artifacts than Germany.³⁹

Grosse had cultivated good contacts with Japanese art dealers and collectors, and also links to the art collecting Japanese nobility of the Meiji government, when he stayed in Japan in the late 19th century. Although he did not read, write, or speak Japanese or Chinese, he acted as one of the primary buyers for the growing collection of Asian art in Berlin.⁴⁰ Grosse held Japan in high regard but saw the country’s art market as volatile and risky. “The art trade here is possibly even more perilous than in Europe [...]. Everything is teeming with forgeries. Average pieces are more common and much cheaper here, but good ones are very rare and much more expensive. Japanese enthusiasts pay higher prices for excellent pieces than Europeans, to whom they are rarely offered for that reason.”⁴¹

Grosse acknowledged that forgeries were a huge problem but that gaining access to collections represented another challenge. He also reflected on the racist stereotype held by Europeans that Japanese and Asian collectors and dealers were generally deceitful. He did not believe that “the soft and humble

38 F.W.K. Müller’s *travel report*, 12, German Original. See a transcribed version of the report here: Leverenz, “From Berlin to Beijing,” 483. In the following I will use Leverenz’s transcriptions.

39 SMB-ZA, I/MfV, OAK 22, Ernst Grosse, Bericht aus Peking (Report from Peking), December 2, 1911, Sheet 207.

40 Hartmuth Walravens, ed., *Und der Sumeru meines Dankes würde wachsen: Beiträge zur ostasiatischen Kunstgeschichte in Deutschland (1896–1932)* (Harrassowitz Verlag, 2010), 9–12.

41 Ernst Grosse, Letter from Tokio, April 4 1907, Letter 15 in Walravens, ed., *Sumeru*. German original: “Der Kunsthandel ist hier womöglich noch gefährlicher als in Europa. Alles wimmelt von Fälschungen. Mittlere Stücke sind häufiger und viel billiger als bei uns; aber gute fast ebenso selten und theurer. Die japanischen Liebhaber zahlen für vorzügliche Stücke höhere Preise als die Europäer; denen man sie in der Regel deshalb gar nicht anbietet.”

women's faces" of the Japanese art dealers "were just larva for demonic souls" or that "every courtesy and amicability displayed to us daily is just a smartly calculated means to a self-seeking end"⁴², but confirmed he was on his guard.

What Grosse regarded as forgeries was directly linked to his assessment of Asian dealers. These dealers might have had a different understanding of what constituted a forgery, a copy, or an authentic object. Grosse and other Germans collecting Asian objects, however, used judged objects according to the European definition of "forgery". In Grosse's opinion therefore, in Beijing forgeries were "mushrooming"⁴³ because Chinese dealers peddled inauthentic objects to satisfy the growing demand. Germany was, in Grosse's opinion, again in danger of being outmaneuvered, writing,

"but if you want to get China's treasures, you need money, and more than a few thousand yen. Don't forget that we have very well-funded rivals. Freer⁴⁴ can pay any price for what we want and will pay it [...] The only consolation is that China is huge and will not be exhausted in a few months."⁴⁵

This quote reveals the colonial attitude concerning China since the country was seen as a space from which art could be extracted, at best without too much interference from fraudulent local Chinese dealers and before imperial rivals could gain the upper hand.

Chinese and Japanese merchants were thus seen as a necessary evil, rather than economic partners. In a report to the foreign ministry in 1912, Grosse reported that the situation on the Beijing art market had declined rapidly over the past two years. Japanese merchants had flooded and exhausted it. Even worse was the competition. "The worst devastation was caused by large individual American and European merchants and their practice of buying up all of a type of artwork in order to monopolize it."⁴⁶ Therefore,

42 Ernst Grosse, Letter from Tokio, End of April 1907 Letter 18, in Walravens, ed., *Sumeru*. German Original: "diese sanften und demütigen Frauengesichter – Larven für dämonische Seelen sind"; "daß die Höflichkeit und Freundlichkeit, die man uns hier täglich erweist, nur schlaue berechnete Mittel zu selbstsüchtigen Zwecken sein sollten."

43 Ernst Grosse, Letter from Tokio, March 20, 1910, Letter 22, in Walravens, ed., *Sumeru*.

44 Charles Lang Freer (1854 – 1919), US-American connoisseur and founder of the Freer Gallery in Washington. He was one of the most prolific American collectors of Asian art in the 20th century.

45 Ernst Grosse, Letter from Tokio, March 20, 1910, Letter 22, in Walravens, ed., *Sumeru*. German Original: "Aber wenn man in China Schätze heben will, so braucht man Geld, und zwar mehr als ein paar tausend Yen. Vergessen Sie nicht, daß wir sehr gut ausgerüstete Rivalen haben. Freer zahlt für Dinge, wie wir sie wünschen, jeden Preis und zahlt ihn auch."

46 SMB-ZA, I/MfV, OAK 22, Ernst Grosse, Bericht aus Peking (Report from Peking), March 14, 1912, Sheet 208, Sheet 209. German Original: "Ganz andere Verheerungen haben die einzelnen amerikanische und europäische Großhändler angerichtet, mit ihrer Praxis, bestimmte Klassen von Kunstwerken völlig aufzukaufen, um sie zu monopolisieren."

Asian merchants would hold back objects, replace them with forgeries or even destroy them to keep prices up.⁴⁷

Otto Kümmel (1874 – 1952), a driving force behind the East Asian Art collection of the Asian Art Museum in Berlin and after 1934, general director of the State Museums in Berlin, noted that Germany needed professionals who knew “everything about the clandestine paths in Japan”⁴⁸ otherwise they would only be “offered rubbish.”⁴⁹ He complained about forgeries in 1909 and called most evidence of provenance at the big European exhibitions “art dealer fairytales.”⁵⁰

In his reports, he linked the lack of what he considered authentic pieces with a lack of knowledge about the Chinese art market, stating “it is completely impossible that such a collection could contain even a small number of authentic pieces, since Parisian collectors do not remotely consider paying what a Chinese collector would pay in China, not to mention the enormous sums the merchants ask for in order to make a profit. So Chinese forgers have to step up and are indeed fully capable of abundantly satisfying the European collecting ambition.”⁵¹

Kümmel and many other authorities hoped trustworthy dealers would become established at the German naval base in Qingdao, located in eastern Shandong province. To evaluate this option and to emulate the successful acquisitions during the Boxer Rebellion, the journalist, economist, and ethnologist Herbert Müller (1885 – 1966, no relation to F.W.K. Müller) spent time in China from 1912 to 1913.⁵²

47 SMB-ZA, I/MfV, OAK 22, Ernst Grosse, Bericht aus Peking (Report from Peking), March 14, 1912, Sheet 209.

48 SMB-ZA, I/MfV, OAK 14, Reise Otto Kümmel nach Ostasien (Otto Kümmel’s journey to East Asia), May 25, 1907, Sheet 104.

49 SMB-ZA, I/MfV, OAK 14, Reise Otto Kümmel nach Ostasien (Otto Kümmel’s journey to East Asia), May 25, 1907, Sheet 104.

50 SMB-ZA, I/MfV, OAK 01, Bericht Otto Kümmel (Report by Otto Kümmel), July 21, 1909, Sheet 154. German Original: “Kunsthändlermärchen”

51 SMB-ZA, I/MfV, OAK 03, Otto Kümmel Bericht über eine Dienstreise nach Paris (Otto Kümmel’s report on a business trip to Paris), 10-20-July, 1912, Sheet 202–203. German Original: “Es ist völlig ausgeschlossen, dass eine derartige Sammlung auch nur zu einem geringen Bruchteil aus echten Stücken bestehen kann, da kein Pariser Sammler daran denkt auch von nun an dieselben Preise zu bezahlen, die ein Chinese in China bezahlt, geschweige denn an geradezu enormen Summen, auf die der notwendige Händlergewinn die Preise schrauben müsste. So muss der chinesische Fälscher einbringen, der denn auch völlig imstande ist alle europäischen Sammleransprüche reichlich zu befriedigen.”

52 Herbert Müller, “Memorandum betreffend einer Forschungsreise nach China, 1912”, in *Herbert Müllers Forschungsreise Nach China 1912–1913: Aus den Akten und Korrespondenzen Neu Bearbeitet und durch Historische Fotos ergänzt*, ed. Hartmuth Walravens (Harrassowitz Verlag, 2017), 22.

H. Müller reported that Qingdao was unfortunately not suited to becoming a “city of collectors”⁵³ and stated that only Chinese curio merchants and “marchand amateurs” were found in the city, and many of them only displayed lower quality works. The German colonial possession in China could therefore not compete with trading ports or legation quarters, where Europeans and Americans already had a strong presence in the form of art dealers.⁵⁴

During his travels in Shandong province, he also gained a measure of the market and learned about what he called the “secrets of forgery”.⁵⁵ He met many influential Chinese art and curio dealers, who, in his words, were deeply intertwined with the forgery trade. The lack of a counter-narrative makes it difficult to assess what kind of businesses he actually observed, but for the German authorities and collectors, Chinese art dealers were almost automatically considered a security issue and aligned with the forgery business.⁵⁶

German companies and entrepreneurs bought and sold Asian art, but they did so either on the resale market or for non-German companies. The owner of China-Bohlken, Theodor Bohlken, did not travel to Asia himself, but rather trusted Otto Burchard to buy for him from 1925 onwards. Burchard (1892-1965) had studied Sinology, writing his thesis on Asian art at the University of Leipzig. He sold a large collection of Asian art objects to the Leipzig Museum of Ethnography in 1917 and established his own dealership in Berlin in 1920. He lost that business and became a buyer for Bohlken. In 1926, Burchard established another company as part of the Margraf Group, a conglomerate of art and antiquities dealers and jewelers in Germany, the U.S., the Netherlands, and France. Burchard specialized in Asian art within that conglomerate, buying it directly in Beijing where he took up residence.⁵⁷ He became a well-known member of the international community in China and had a reputation for understanding common business practices within the sophisticated Chinese art market.⁵⁸

Burchard traveled via rail at least twice a year to China in order to buy objects before moving there permanently in 1927. In Beijing, he stayed at the famous Fu Lai Fandian Hotel, which was the center of the expat community in the city, allowing him to connect with important local figures on the market.⁵⁹ Networks were especially important, as the demand for Asian

53 Ibid., Müller letter to Müller, April 25 1912, 79. German original: “Sammlerstadt”.

54 Ibid., 79–80.

55 Ibid., 81.

56 Ibid., 81–82.

57 Ilse von zur Mühlen, “Finance, Taxes and Provenance: A German Museums Acquisition of Chinese Antiquities in 1935,” *Journal for Art Market Studies* 3 (2018): 2–4.

58 Patrizia Jirka-Schmitz, “Otto Burchard (1892–1965): Vom Finanz-Dada zum Grandseigneur des Pekinger Kunsthandels,” *Mitteilung Deutsche Gesellschaft für Ostasiatische Kunst* 12 (1995): 23–25.

59 Ibid., 25–27.

objects constantly rose in the 1920s and 1930s. He therefore developed reliable connections to sellers, looters, collectors, and even tomb raiders, who in the years following the 1911 revolution represented important market sources.⁶⁰ Unlike other German dealers of Asian art, he spent most of his time in Asia, leaving Beijing only twice a year between 1927 and 1932 to sell merchandise in Berlin. It also gave him the reputation of being able to secure objects otherwise impossible to get in Europe. After 1932, Burchard and his wife no longer left Beijing periodically since his standing no longer made it necessary to travel. Chinese sellers came to his private home with information or objects. He no longer advertised but relied on his reputation among collectors, who increasingly came from all over the world, confident he could protect them from the embarrassment of buying fraudulent objects. He usually did so by subtly threatening to reveal Chinese dealers as dishonest to the international community, should they present an object he deemed not to be authentic.⁶¹ As a German Jew, Burchard had to conceal the ownership of his business after 1933, managing it through family members and middlemen.⁶² Burchard was very influential, especially since other German dealers, such as Johann Janssen and Heinrich Peters, only traveled to China once a year.⁶³ Nonetheless, in the minds of men like Otto Kümmel, these German nationals could educate the public about the risks of forgeries and supply Germany on a much more consistent basis than museum agents' occasional journeys were capable of. A good example is Edgar Worch (1880-1972), who started his career selling Asian art in 1902 in Paris as part of his uncle's business. Worch traveled annually to China between 1906 and 1914. After 1918, he began to work for Ludwig Glenk, who mainly sold pieces from museums. After establishing his own company in 1927, Worch sold objects he had bought in China rather than from the resale market.⁶⁴

Worch took several precautions to guard against forgeries and to establish a good relationship with buyers in Germany, making detailed notes and drawings, allowing merchandise to be assessed before a deal was concluded. The company also established a fruitful relationship with Chinese consultants, such as Paul Hou Mingzi, an art dealer in Peking who supplied Worch with objects and knowledge. In 1932, Worch left Germany for Switzerland and settled in the U.S. in 1939 via a stay in Paris. It is not clear why he moved, although art historian Jirka-Schmitz suggests the rise of National Socialism.⁶⁵

60 *Ibid.*, 29.

61 *Ibid.*, 29–34.

62 von zur Mühlen, "Finance, Taxes and Provenance: A German Museums Acquisition of Chinese Antiquities in 1935," 2–4.

63 Jirka-Schmitz, "The Trade," 2.

64 Jirka-Schmitz, "The Trade," 4–5.

65 *Ibid.*, 6–8.

To some extent, dealers, such as Edgar Worch and Otto Burchard, solved the issues German museum authorities and collectors, such as Otto Kümmel, Ernst Grosse, and Hebert Müller, had experienced since 1900, for example, gaining a stable foothold in China, circumventing the Japanese dominance on the Asian art market, and most importantly dealing with the risk of forgeries. Museum officials, like Otto Kümmel therefore celebrated German commercial art dealers, portraying them as bold adventurers in a foreign and dangerous land. When Jörg Trübener (1902-1930), art dealer and employee of Edgar Worch died during his last trip to China, Kümmel wrote in an obituary:

“He had little more than his eye and his taste to counter the risks of the Chinese art trade. The uncanny forgery skills of the Chinese may provide some excitement but they are not exactly among the friends of the buyer in the Far East. [...]. In China, it is usually a case of making up your mind in the moment, and no god will help an erring buyer.”⁶⁶

Kümmel called art dealers the constant “observation post”⁶⁷ of German collectors in Asia. He thought the art dealers did not simply act as commercial agent, but also as “guides”⁶⁸. China was portrayed as a dangerous land of opportunity, where art dealers ventured in order to secure objects that had not been appreciated by amateurs or the Chinese themselves. He again made a connection between colonialism and the commercial expansion on the Chinese art market.

3.5 “We Have Always Maintained Our Connection to Asia” – Shifting Relationships Under the Nazi Regime

The rise of the Nazi Regime represented a serious shift. Both Worch and Borchard effectively left Germany for the U.S., and China, while Sinology and East Asian art history as academic subjects suffered immensely from the discriminatory policies and the willingness of many scholars to be complicit in repressive measures against former colleagues, students, and business partners.⁶⁹

66 Otto Kümmel, *Jörg Trübener zum Gedächtnis: Ergebnisse seiner letzten chinesischen Reise* (Klinkhardt & Biermann Verlag Berlin, 1930), 8. German Original: “Er hatte also nicht viel mehr als sein Auge und seinen Geschmack, um den Gefahren des chinesischen Kunsthandels entgegenzutreten. Die unheimlichen Fälscherkünste der Chinesen lassen zwar nicht Langeweile aufkommen, gehören aber nicht gerade zu den Freunden des Käufers im Fernen Osten. [...] In China heißt es meist, sich im Augenblick entscheiden, und dem Irrendem hilft kein Gott.”

67 Ibid., 6. German Original: “Beobachtungsposten”.

68 Ibid., 5. German Original “Führer”

69 Jonathan Petropoulos, “Art Historians and Nazi Plunder,” *New England Review* 21, no. 1 (2000): 7–8; Li, “Romantik und Orientalismus,” 47–46

Otto Kümmel became General Director of the Berlin State Museums in 1934 and began to intensify relationships with Japan. He stated, “we have always maintained our connection to Asia”⁷⁰ and argued publicly that the politically most relevant questions would be decided in “the East” and thus Asian art had a key function for Germany.⁷¹ In this respect, Asian art was seen differently from other non-European art, which was largely judged as inferior under the Nazi regime and thus declined in popularity.⁷²

After the signing of the Anti-Comintern Pact between Japan and Germany in 1936, many art objects were returned to Japan, albeit not as restitutions or sales but as gifts between allies.⁷³ It was assumed that China would be dominated by the Empire of Japan. Japan was seen as a modern state and a rising world power, while China had been left behind. In this context, Japanese museums and art collections were seen as a clear indicator for its advancement as an empire and civilization, while China was portrayed as remaining in medieval times.⁷⁴

Still, forgeries remained a concern, so much so that Leopold Reidemeister (1900 – 1987), one of the most influential curators and after 1957, General Director of the Berlin State Museums, traveled to Northern China in 1935 and 1936 to inspect “forgery workshops”. His descriptions show a dismissive attitude to local entrepreneurship and crafts.⁷⁵

A year later in 1937, with the outbreak of the Sino-Japanese war, German collectors once again enjoyed access to a market shaped by the “economy of plunder”. Art pieces could again be bought at low prices. According to a letter to Kümmel, even those “poor as a church mouse”⁷⁶ could afford to buy increasingly valuable objects in the wake of fascist aggression in Asia.⁷⁷

Although the Nazi regime drove out dealers like Worch and Burchard, others continued to operate. Many did so as part of the resale market, which flourished until the 1940s. These dealers traded less with direct imports, instead focusing on sales resulting from the dissolution of companies and

70 Quote from Timo Saalman, *Kunstpolitik der Berliner Museen 1919–1959* (DeGruyter, 2014), 190.

71 Ibid., 190–191.

72 Fiebig, “Exotische Kunst“, 153.

73 Saalman, *Kunstpolitik*, 190–195.

74 SMB-ZA, I/MfV, OAK 23, Bericht Studienreise von Leopold Reidemeister nach Ostasien 1935/36 (Report on Leopold Reidemeister’s research trip to East Asia 1935/36), Sheet 37.

75 SMB-ZA, I/MfV, OAK 23, Bericht Studienreise von Leopold Reidemeister nach Ostasien 1935/36 (Report on Leopold Reidemeister’s research trip to East Asia 1935/36), Sheet 37, Sheet 38.

76 SMB-ZA, I/MfV, OAK 06, Letter to Otto Kümmel, November 29 1937 Sheet 123. German Original: “Arm wie eine Kirchenmaus.”

77 SMB-ZA, I/MfV, OAK 06, Letter to Otto Kümmel, November 29 1937, Sheet 123.

private collections. Provenance research is still trying to discern how many of these sales were enabled by Nazi injustice and dispossession.⁷⁸

3.6 Conclusion

While *Cicerone* presented Edgar Worch and Otto Burchard as remarkable art dealers because they both presented large sales of Chinese art objects in 1928, it also referred to political instability and personal danger as a risk to accessing art in China. Viewed from history, these perceived dangers fit the broader narrative of adventurous art dealers, who were sometimes colonial agents. However, from 1900 on, profound shifts occurred regarding who collected and how they did so. Political turmoil in Asia was seen as an opportunity by the museum authorities, who also stressed the need to accumulate Asian objects as part of a colonial project. Chinese and Japanese dealers, who sought to satisfy the ever-growing demand and sometimes even expanded globally, were seen as a risk because their attempts to adapt led many Germans to align Japanese and Chinese art dealers with forgers. They were seen through a colonial gaze, in which they were considered part of the problem, never the solution. The celebration of Germans, such as Worch, Trübener, and Borchard, stemmed from an economic, political, and in parts racist viewpoint. German art dealers were seen as part of Germany's ambitions in Asia because they helped combat the two crucial risk factors for collectors: international competition and forgeries.

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SMB-ZA, I/MfV, OAK 22, Ernst Grosse, Bericht aus Peking

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⁷⁸ Silke Reuther, "Well-Advised by Friends Philipp F. Reemtsma's East-Asian Collection," *Journal for Art Market Studies* 3 (2018): 5–9.

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4 Risky Business

The Straits and Sunda Syndicate (1910–1945). German Investments in the Plantation Economy of Southeast Asia

Friederike Sattler

Introduction

German overseas trading houses began to take a greater interest in investment opportunities in tea, coffee, and rubber plantations in Southeast Asia in the 1890s. A prime example of this is the firm Arnold Otto Meyer, founded in Hamburg in 1857, which was able to rely on a close cooperation with its sister company Behn, Meyer & Co. in Singapore in the British-controlled Straits Settlements; this firm had been established already in 1840.¹ Inspired by British models, Franz Heinrich Witthoefft (1863–1941), the most important figure of the two companies, realized the opportunities offered by large-scale plantation management, particularly with regard to rubber plantings.² In the 1890s, it became clear that the plantation-grown *Hevea brasiliensis* was better able to meet the growing demand from industries for raw material to produce rubber products than the wild rubber harvested from the rainforests of Brazil and Equatorial Africa.³ As a result, British trading houses engaged in Southeast Asia started operating rubber plantations.⁴

1 On the two company's history: Emil Helfferich, *Zur Geschichte der Firmen Behn, Meyer & Co., gegründet in Singapore am 1. November 1840, und Arnold Otto Meyer, gegründet in Hamburg am 1. Juni 1857. Vol. 1: 1840-1862* (Hans Christians, 1957), 18; Fritz Kleinsteuber, *Merchants Beyond the Seas: Die Geschichte des Handelshauses Behn Meyer* (Behn Meyer Deutschland Holding AG & Co. KG, 2018).

2 For a biography of Witthoefft: Detlef Krause, "Witthoefft, Franz Heinrich," in *NDB-online*, published January 1, 2023, www.deutsche-biographie.de/dboW7403.html#dbcontent.

3 Phin Keong Voon, *Western Rubber Planting Enterprise in Southeast Asia, 1876–1921* (Penerbit University Malaya, 1976); Bastian Linneweh-Kaçmaz, *Formbarkeit von Globalisierung: Kautschuk, Warenketten und Marktinterventionen (1900–1965)* (Campus, 2023), 55–164.

4 Geoffrey Jones and Judith Wale, "Merchants as Business Groups: British Trading Companies in Asia Before 1945," *Business History Review* 72, no. 3 (1998); Geoffrey Jones and Judith Wale, "Diversification Strategies of British Trading Companies: Harrisons & Crosfield, c.1900–c.1980," *Business History* 41, no. 2 (1999).

But British and German East Asia trading houses differed in a significant aspect of corporate governance. After the collapse of the indigo market in the 1830s, which was due to an oversupply resulting from the massive expansion of cultivation areas in British India after American independence, the British *agency houses* had already largely withdrawn from risky trading and banking on their own account, now preferring to offer professional management to legally independent, publicly listed companies.⁵ In contrast, German trading houses, as in the case of Arnold Otto Meyer, were still generally managed by personally liable partners who approached larger investments with a great deal of caution. The first investments in plantations initiated by Witthoefft were therefore rather modest and, in addition, they only took place after Behn, Meyer & Co. had reduced its liability risk by converting into a British limited company in 1906.⁶ In the very same year, Arnold Otto Meyer & Co. London was founded to gain a stronger presence at the London rubber exchange.⁷

The German Arnold Otto Meyer group, consisting of three firms in Hamburg, London and Singapore, was thus quite distinct from the joint-stock companies created by British East Asia merchants since the 1870s. These had their legal headquarters in London but only maintained a small office there, while their corporate purpose was to intensify investment in East Asia by setting up further – free standing – joint-stock companies. The British trading houses used these *free-standing companies*, which played an important role in the formation of global value chains and transformed themselves into multinational corporations, to expand their strategically controlled activities all over East Asia.⁸ German merchants apparently took a different approach when expanding their activities in East Asia, but this has not been examined in detail so far. The article takes the example of the Arnold Otto Meyer group and focuses on its involvement with the Straits and Sunda Syndicate to explore what strategies it developed to secure the investments in the plantation economy of Southeast Asia. Did the syndicate's managers succeed in containing the risks arising from both

5 Stanley D. Chapman, "The Agency Houses: British Mercantile Enterprise in the Far East, c.1780–1920," *Textile History* 19, no. 2 (1988).

6 Helfferich, *Geschichte*, Vol. 2, 99–104.

7 Franz Heinrich Witthoefft, *Memoirs*, unpublished typescript [1938], 46, Behn Meyer Archives, Hamburg (henceforth: BMA), Sammlung Druck 1; Helfferich, *Geschichte*, Vol. 2, 106–108, 117–122.

8 Cf. Mira Wilkins, "The Free-Standing Company, 1870–1914: An Important Type of British Foreign Direct Investment," *The Economic History Review* 41, no. 2 (1998); Mira Wilkins and Harm Schröter, eds., *The Free-Standing Company in the World Economy, 1830–1996* (Oxford University Press, 1998); Geoffrey Jones, ed., *Multinational Traders* (Routledge, 1998); Geoffrey G. Jones, *Merchants to Multinationals: British Trading Companies in the Nineteenth and Twentieth Centuries* (Oxford University Press, 2000).

the strong price fluctuations for its products as well as emerging political conflicts? Were they able to generate profits for the investors? To answer these questions, this paper first outlines the establishment and rapid expansion of the Straits and Sunda Syndicate. The following four chronologically organized subchapters examine first the consequences of the First World War, second the developments in the 1920s, third the attempts to overcome the world economic crisis of 1929, and fourth the effects of the Second World War. A brief conclusion summarizes the results of the study.

Founding and rapid expansion

Witthoefft's ambitions to invest on a larger scale into the plantation economy of Southeast Asia were encouraged by Emil Helfferich (1878–1972), the responsible manager for Arnold Otto Meyer's trading business.⁹ Witthoefft and Helfferich did not advocate an expansion of the German colonies in East Asia and Oceania, which included the "Pachtgebiet Kiautschou" in Northern China as well as a number of "protectorates" in New Guinea and Samoa.¹⁰ Rather, they wanted to make better use of the business opportunities that arose from the colonial rule and imperial influence of the Europeans and Americans in this part of the world. Helfferich himself had established the trading company Helfferich & Rademacher in Batavia (Dutch East Indies) in the early 1900s. With the support of Arnold Otto Meyer, this firm was converted into a joint-stock company in 1907. The failure of this venture, which ran into financial difficulties due to speculative transactions in the pepper market and was bought up by Behn, Meyer & Co. Ltd. in February 1908, led them to reorganize the product business of the whole Arnold Otto Meyer Group. They attempted – with success – to make purchasing and sales processes more efficient by coordinating them with other market participants.¹¹ And by increasing German investment in the plantation economy of Southeast Asia, they hoped to expand their own and the whole German share of this business.

9 On the biography of Helfferich: Claudia Kemper and Hannah Rentschler, *Handlungsspielräume und Verantwortlichkeiten der Handelskammer Hamburg während der NS-Zeit* (Metropol, 2023), 273–281.

10 Cf. Klaus Mühlhahn, *Herrschaft und Widerstand in der „Musterkolonie“ Kiautschou: Interaktionen zwischen China und Deutschland, 1897–1914* (Oldenbourg, 2000); Charles Stephenson, *Germany's Asia-Pacific Empire: Colonialism and Naval Policy, 1885–1914* (Boydell Press, 2009); Hermann Hiery, „Deutsche Kolonien“; in *Die Deutschen und ihre Kolonien*, ed. Horst Gründer and Hermann Hiery (be.bra, 2018); Hermann Mückler, *Kolonialismus in Ozeanien* (Facultas, 2012); Hermann Mückler, *Australien, Ozeanien, Neuseeland* (S. Fischer, 2020).

11 Cf. Emil Helfferich, *Ein Leben. Vol. 1* (Deutsch-Indonesische Handelskammer, 2000), 106–182; Helfferich, *Geschichte*, Vol. 2, 108–116.

To gain support for their project from potential investors, they circulated a jointly written memorandum on “German Economic Policy in Southeast Asia” in the summer of 1909.¹² The response was mixed. Deutsche Bank, for example, was very reserved. Increasing German investment in Southeast Asia was a good idea in itself, commented board member Elkan Heinemann (1859–1941), who was responsible for the bank’s foreign holdings, but it was also “very dangerous” because the bank had little experience in this area.¹³ Heinemann’s inquiries at the branches in Hamburg and Bremen, where there were some employees with East Asian experience, confirmed his negative attitude.¹⁴ It was only when Witthoefft informed him that a Belgian investor group had signaled a vivid interest in the project that Deutsche Bank’s assessment changed. Despite its great ambitions, the Kingdom of Belgium had not yet succeeded in establishing itself as a colonial power in East Asia.¹⁵ Obviously, Belgian bankers and industrialists were all the more willing to participate in respective international investment projects. Deutsche Bank now agreed to participate in a German-Belgian “*Studiensyndikat*” (Study Syndicate) in order to search for suitable projects on the ground.¹⁶ On September 1, 1909, the Study Syndicate, named “*Straits und Sunda Syndikat*” (Straits and Sunda Syndicate), was founded as a civil law partnership with a capital of 70,000 marks; its management was transferred to the Arnold Otto Meyer company.¹⁷

The first reports from Helfferich, who soon went on a journey of exploration, arrived in Hamburg in December 1909.¹⁸ When he returned to Hamburg, he brought back several purchase options for plots of land so that the syndicate members could decide whether to exercise them or not.¹⁹

12 Deutsche Wirtschaftspolitik in Südostasien, [by Witthoefft/Helfferich, 1909], Historical Archives of Deutsche Bank, Frankfurt am Main (henceforth: HADB), S 1406.

13 Deutsche Bank (henceforth: DB), Headquarter Berlin (henceforth: HqB), Heinemann, to DB, Hamburg branch, Koch, June 23, 1909, HADB, S 1407.

14 Cf. the correspondence from June to July 1909 in: HADB, S 1407.

15 Robert Raymond Ansiaux, *Belgian Colonial Efforts* (PhD diss., University of Texas at Arlington, 2006).

16 Arnold Otto Meyer (hereafter: AOM), to DB, HqB, August 17, 1909, HADB, S 1407; DB, HqB, to AOM, August 18, 1909, HADB, S 1407.

17 The following parties were involved: Deutsche Bank (2 stakes of 5,000 marks), M. M. Warburg & Co. (2 stakes), Commerz- und Disconto-Bank (1 stake), Theodor Wille (1 stake) and Arnold Otto Meyer (1 stake) on the German side, and Compagnie Commerciale Belge anct. H. Albert de Bary & Co. (2 stakes), Mutualité Anversoise S. A. (1 stake), Union Commerciale Anversoise S. A. (1 stake), Hugo Michelis (1 stake), Van de Put-Heirman (1 stake) and L. & W. van der Velde (1 stake). Cf. DB, HqB, to AOM, September 16, 1909, HADB, S 1407.

18 As an example: Helfferich, 1st brief travel report, Colombo, December 3, 1909, HADB, S 1407; AOM to DB, HqB, December 29, 1909, HADB, S 1407.

19 See the relevant documentation in: HADB, S 1406 und S 1408.

Encouraged by this success, the members decided to give their undertaking a stronger organizational form: On October 14, 1910, they founded the “*Straits und Sunda Syndikat mbH*” (SSSmbH), a limited liability company based in Hamburg.²⁰ The two investor groups each provided half of the capital for the company, which totaled 100,000 marks, and they formed a credit consortium that promised to supply up to 10 million marks for investments.²¹ In the preceding discussions, the German side had emphasized the desire to limit the risk of the envisaged investments by setting such a clear limit. Witthoefft was appointed chairman and Heinemann deputy chairman of the supervisory board, Helfferich and Philipp Adolph Friedrichs took over the day-to-day management of the SSSmbH.²² Helfferich soon went back to Batavia to continue the search for plantations. On the ground, where the Dutchman Herman van der Hoeven served as the syndicate’s permanent representative, its establishment was warmly welcomed by the Javasche Bank. As the central bank of the Dutch East Indies, it played a major role in the economic development of the colony and was keen to counter the strong presence of British capital: While British investors contributed more than 120 million guilders to the total foreign capital of 170 million guilders invested in the Dutch East Indies in 1910, the French and Belgians each contributed around 20 million guilders, the Chinese from China around 7 million guilders, but the Germans only 1.2 million guilders.²³

In the following years, the Straits and Sunda Syndicate built up a group of companies, which included plantations as well as significant holdings in processing plants.²⁴ Each investment opportunity proposed by Helfferich and van der Hoeven was subjected to critical reviews by the syndicate

20 Note regarding the “*Straits und Sunda Syndikat mbH*” (henceforth: SSSmbH), [DB, ca. 1925], HADB, S 1412; SSSmbH, Annual report (henceforth: Rep.) 1911, HADB, S 1410.

21 The contract between the SSSmbH and the credit consortium can be found in: HADB, S 1409. In addition to the members of the former Study Syndicate, the Hamburg trading houses of Garrels & Börner and Münchmeyer & Co. and the Kiel entrepreneur Heinrich Diederichsen participated in the SSSmbH as well as in the credit consortium. Among the Belgian investors, all former members also remained on board, having joined forces with other interested parties from Antwerp, Brussels and London to form the *Société Commerciale et Financière Belge, S. A.*, based in Antwerp. Cf. SSSmbH, Rep. 1912, p. 3, BMA, BM&C, SSS/1.

22 SSSmbH, Rep. 1911, p. 4, HADB, S 1410.

23 De Javasche Bank, Batavia, to M. M. Warburg & Co., Hamburg, July 20, 1910, HADB, S 1408; Helfferich, AOM, Office of the SSSmbH, Hamburg, to DB, HqB, August 4, 1911, HADB, S 1409. Concerning the role of the Javasche Bank: Alexander Claver, *Dutch Commerce and Chinese Merchants in Java: Colonial Relationships in Trade and Finance, 1800–1942* (Brill, 2014), 49–50, 59–65, 268–275.

24 Many of their travel reports from the years 1912 and 1913 can be found in: HADB, S 1410.

members, who sought additional advice from external experts. Compared to previous years, the establishment of plantation companies progressed only slowly because the focus was on the consolidation of existing companies. Under these conditions, the rapid expansion of the Straits and Sunda Syndicate seems all the more remarkable: by 1912, the syndicate had already established eight plantation companies, including, for example, the *Maatschappij tot Exploitatie van het Land Semplak* on Western Java, with a share capital of 900,000 guilders and almost 5,000 bouws of land (= 3.548 hectares), on which rice, tea and coffee as well as 40,000 rubber trees, were cultivated.²⁵ The plantations initially only generated modest profits, with rice and tea sales making a higher contribution than the rubber harvests.²⁶ At their general meeting on July 2, 1913, the syndicate members were nevertheless able to conclude that their company, with its staff of 60 European employees and 6,800 local workers, had developed positively.²⁷ The syndicate members even felt inspired to forge far-reaching plans for new study syndicates in the field of transportation, electricity and other technologies as well as the exploration of mineral resources and the acquisition of mining concessions.²⁸ But all these grand plans were thwarted by the First World War.

The First World War and its aftermath: the threat of liquidation

During the war, it became increasingly difficult for Helfferich and van der Hoeven to keep the syndicate's plantations in good condition as operating costs rose and the labor shortage became acute. In order to settle the growing claims of the SSSmbH against the individual plantation companies, for example, loan interest, they gradually transferred their own shares to the parent company in Hamburg.²⁹ The syndicate's situation deteriorated in 1916 when the British, who had already seized all the syndicate's holdings

25 SSSmbH, Rep. 1912, p. 16, BMA, BM&C, SSS/1. – The standard area measure used in the Dutch East Indies, 1 bouw, was the equivalent of 0.709649 hectares.

26 SSSmbH, Rep. 1912, p. 22, BMA, BM&C, SSS/1. – The standard area measure used in the Dutch East Indies, 1 bouw, was the equivalent of 0.709649 hectares.

27 SSSmbH, Hamburg, Helfferich/Friedrichs, Circular letter no. 99, June 25, 1913, HADB, S 1410; Helfferich, *Ein Leben*, 243.

28 SSSmbH, Hamburg, Helfferich/Friedrichs, to DB, HqB, December 4, 1913, HADB, S 1410; SSSmbH, Hamburg, Helfferich, to Heinemann, Berlin, March 17, 1914, HADB, S 1410.

29 SSSmbH, Hamburg, Friedrichs, Circular letter no. 147, June 12, 1916, HADB, S 1411; SSSmbH, Balance sheet, profit and loss statement 1915, HADB, S 1411. – Regular committee meetings hardly took place during the war. Cf. the minutes in: Stiftung Warburg Archiv, Hamburg (Foundation Warburg Archives, Hamburg; henceforth: SWA), C-119084.

in firms based in the Straits Settlements and British Malaya, added all the syndicate's subsidiaries based in the Dutch East Indies to their "blacklist". Dutch shipping companies now refused to transport cargoes, making it increasingly difficult for the plantation companies to sell their products.³⁰

Since postal and telegraph connections to Batavia had been interrupted in December 1916 due to the war, the syndicate's members in Hamburg were in the dark as to whether Helfferich and van der Hoeven were able to increase domestic sales. In Batavia, meanwhile, Helfferich endeavored to establish new business connections with Japanese companies which were trying to gain a better foothold in the Dutch East Indies at the time.³¹ He primarily sought new buyers for products but was also willing to consider divestments of land to avert the impending insolvency of the plantation companies. That the Javasche Bank finally succeeded in brokering two plantation sales for Helfferich, one to the government of the Dutch East Indies and one to the government of Japan, standing behind a Japanese plantation company with a subsidiary in Java called Nankoku Sanyo Ltd., only reached Hamburg at the beginning of 1919, after the armistice of November 11, 1918.³² These two sales had secured the liquidity of the syndicate, but at the same time, the great loss of land worsened the conditions for a fresh start.³³

When the SSSmbH held its first postwar general meeting in Hamburg on September 9, 1919, only the German members were present.³⁴ Due to a lack of knowledge about the plans of the Belgian investors, whose 50 percent stake had been confiscated by the Belgian government, no one could say how to proceed with the cooperation: Should the company be liquidated? Heinemann's alternative suggestion, that the Belgian group could sell its assets to the German group, raised the problem of a solid valuation, which, however, has not yet been possible due to the unknown economic status of the plantations.³⁵

To ensure the survival of the syndicate, Helfferich tried to restore the remaining plantations economically and establish new Japanese business contacts, but without much success.³⁶ When the first wave of demand for tea and rubber, caused by supply shortages during the war, came to a halt

30 Note regarding the SSSmbH, [Office of the SSSmbH, September 1916], HADB, S 1411; SSSmbH, Hamburg, Helfferich, Circular letter no. 157, December 11, 1916, HADB, S 1411; Helfferich, *Ein Leben*, 286–287, 302.

31 Howard Dick, "Japan's Economic Expansion in the Netherlands Indies Between the First and Second World Wars," *Journal of Southeast Asian Studies* 20, no. 2 (1989).

32 Helfferich, *Ein Leben*, 312–314.

33 SSSmbH, Hamburg, Friedrichs, Circular letter no. 173, April 5, 1919, HADB, S 1411.

34 Note regarding the SSSmbH, [DB], HADB, S 1411.

35 DB, HqB, Heinemann, to the SSSmbH, Hamburg, June 20, 1919, HADB, S 1411.

36 SSSmbH, Hamburg, Rep. 1919/21, p. 5, BMA, BM&C, SSS/2; Helfferich, *Leben*, 399–402.

in 1921, he was faced with a massive decline in revenue.³⁷ Mounting debts forced him to sell the Semplak plantation.³⁸ Another decision helped to avoid an existential crisis: the syndicate began to cultivate cinchona plants on the small Halaban plantation on the west coast of Sumatra, which Helfferich had acquired in 1919. Cinchona bark was used to produce the medically valuable quinine, which proved to be a lucrative new business venture.³⁹ The remaining tea and rubber plantations were not neglected but rationalized by new factory installations.

Additionally, in the fall of 1922 important decisions regarding the corporate governance were made: The N. V. Straits and Sunda Syndicate's Administratie Kantoor in Batavia, a joint-stock company under Dutch law, which Helfferich had founded in 1919, took over the shares and receivables against the plantation companies that had been held by the SSSmbH in Hamburg so far. This was not only an attempt to remove these assets from the control of the victorious powers of the war, who might try to confiscate them for reparations purposes, but also a prerequisite for an agreement with the private Belgian investors.⁴⁰ After Deutsche Bank had declared its fundamental willingness to pay out the Belgian partners, provided that all German investors would participate, the two groups agreed to do so by installments between 1925 and 1929.⁴¹ This agreement paved the way for the split: in February 1925, the Administratie Kantoor took over the majority of the Belgian capital originally invested in the SSSmbH, while at the same time granting its German shareholders the option of acquiring this capital in stages up to December 31, 1929.⁴² The threat of liquidation had been removed.

Even before this solution was found, the earnings situation of the Straits and Sunda Syndicate had improved due to the stabilizing product prices.⁴³ But, unfortunately, this did not apply to rubber. The production restrictions imposed by the British government on British India, Ceylon, the Federated Malay States and the Straits Settlements led to a certain shortage in supply but had almost no effect on prices, as an even greater supply came from the

37 DB, HqB, Heinemann, to DB, Hamburg branch, October 24, 1921, HADB, S 1411.

38 SSSmbH, Rep. 1919/21, 5, 7, 11, 36–37, BMA, BM&C, SSS/2.

39 On the transfer of the cinchona plant to Asia: Stefanie Gänger, *A Singular Remedy: Cinchona Across the Atlantic World, 1751–1820* (Cambridge University Press, 2021).

40 Regarding the separation of the two investor groups cf. SWA, C-119073 und C-119074.

41 SSSmbH, Hamburg, Friedrichs, to the syndicate members (German group), November 11, 1920, HADB, S 1411; Note by the DB, September 25, 1924, HADB, S 1411; SSSmbH, Hamburg, Helfferich/Friedrichs, to the DB, HqB, October 29, 1924, HADB, S 1411; DB, HqB, to the SSSmbH, Hamburg, November 12, 1924, HADB, S 1411; Helfferich, Leben, 330–331.

42 Note regarding the SSSmbH, [DB], August 31, 1925, HADB, S 1412.

43 SSSmbH, Rep. 1923, 1, 3–5 and attachments B and C, BMA, BM&C, SSS/3.

Dutch East Indies, increasingly from the smallholdings of the native population.⁴⁴ Therefore, the syndicate welcomed continued efforts to restrict rubber production but saw it as the main task, to promote the rational management of the large plantations to remain competitive at a future lower price level.⁴⁵ Great hopes were placed in quinine, as the Halaban plantation had shown “an almost brilliant development” in 1923, so that the Straits and Sunda Syndicate was able to achieve its first significant production for which the Hoshi Pharmaceutical Company in Tokyo had been acquired as a customer.⁴⁶ The syndicate was not yet a member of the cinchona bark planters’ syndicate of the Dutch East Indies, which had a long-term supply contract with the Dutch quinine manufacturers’ syndicate. However, when the Hoshi Pharmaceutical Company ran into financial difficulties, it felt compelled to seek an understanding with the two Dutch syndicates that dominated the world market.⁴⁷

Overall, five years after the end of the war, the Straits and Sunda Syndicate was in a good position. Its seven plantation companies, which comprised almost 5,000 bouws, grew tea on 2,400 bouws, rubber on 1,600 bouws, and cinchona bark on almost 1,000 bouws; in addition, there were 1,500 bouws of leased land, on which rice was the main crop.⁴⁸ Furthermore, Administratie Kantoor in Batavia had taken over the administration and sale of products for eleven plantation companies in the hope of later acquiring a stake in them. This was a high-turnover service business that made an increasing contribution to the company’s net profit.⁴⁹ In retrospect, the year 1923 brought an important turning point for the Straits and Sunda Syndicate: With the willingness to make divestments, to split from the

44 On November 1, 1922, the *Stevenson Restriction Scheme* came into force for British production areas. Cf. Note for Paul Millington-Hermann, written by Kurt Weigelt, DB, HqB, March 15, 1918, HADB, S 1416. Cf. also John H. Drabble, *Rubber in Malaya 1876–1922: The Genesis of the Industry* (Oxford University Press, 1973).

45 SSSmbH, Rep. 1923, 5, 9, BMA, BM&C, SSS/3. The assumption, that restrictions could soon be lifted without depressing the prices, proved to be false. This led to the end of the *Stevenson Restriction Scheme* in 1928. Cf. Linneweh-Kaçmaz, Formbarkeit, 276–297.

46 SSSmbH, Rep. 1923, 5–8; BMA, BM&C, SSS/3. See also: Inspection report on the Halaban plantation, visited by Koch in July 1927, HADB, S 1411; Helfferich, Leben, 403–404.

47 The SSSmbH joined the cinchona bark planters’ syndicate of the Dutch East Indies in November 1926. Cf. SSSmbH, Hamburg, Friedrichs, to DB, HqB, October 30, 1926, HADB, S 1411. – On the policy of the Dutch quinine manufacturers’ syndicate: Arjo Roersch van der Hoogte and Toine Pieters, “Quinine, Malaria, and the Cinchona Bureau: Marketing Practices and Knowledge Circulation in a Dutch Transoceanic Cinchona-Quinine Enterprise (1920s–30s),” *Journal of the History of Medicine and Allied Sciences* 71, no. 2 (2015).

48 SSSmbH, Rep. 1923, p. 7 and attachment A, BMA, BM&C, SSS/3.

49 SSSmbH, Rep. 1923, 10–12 and attachment D, BMA, BM&C, SSS/3.

Belgian investors, to force rationalization, to diversify crops and to establish new business relationships, particularly in Japan, the syndicate made a fresh start in both organizational and economic terms.

On the way to “Germany’s largest colonial enterprise”

By reducing corporate taxes and ensuring the continuation of the contract labor system, the government of the Dutch East Indies provided the necessary operational security for the further consolidation of the large-scale plantations and their integration into international trade.⁵⁰ These favorable conditions also benefited the Straits and Sunda Syndicate, which now – because Germany had completely lost its own colonies and almost all the investments made by private companies within these colonies – even rose to become the largest of the few remaining German colonial enterprises. In the following years the syndicate did not expand its activities to new crops, such as oil palms or sisal, instead, it concentrated on the cultivation of tea, rubber, cinchona bark and coffee.⁵¹ Usually, the syndicate’s plantation companies concluded forward sales contracts for these main products, so that they were protected from losses if prices unexpectedly fell. This double strategy of achieving a spread of risk through limited diversification and forward-looking pricing proved to be quite effective.⁵²

Since most problems were to be expected in the fluctuating rubber market, the syndicate sought direct contacts with American buyers.⁵³ Witthoefft tried to use the contact network of M. M. Warburg & Co. to present the Straits and Sunda Syndicate as a qualified broker and service provider to American companies like the Goodyear Tire & Rubber Company.⁵⁴ But the Straits and Sunda Syndicate simply offered too little potential to be able to make a significant contribution to meeting the needs of this industrial giant.⁵⁵ Helfferich’s plan to invest in larger plantation companies also failed, since the obligations to pay off the Belgians limited the scope for

50 Cf. J. Thomas Lindblad, “The Contribution of Foreign Trade to Colonial State Formation in Indonesia, 1900–1930,” in *The Late Colonial State in Indonesia: Political and Economic Foundations of the Netherlands Indies, 1880–1942*, ed. Robert B. Cribb (KITLV Press, 1994).

51 SSSmbH, Rep. 1924, 1925, 1926 resp. 1927, BMA, BM&C, SSS/4, 5, 6 resp. 7.

52 SSSmbH, Rep. 1925, 1926 resp. 1927, 11, resp. 1; BMA, BM&C, SSS/5, 6 resp. 7.

53 Cf. the respective correspondences in: SWA, C-119074 und C-119075. – One of the best-known American companies present in the Dutch East Indies was the United States Rubber Company. Cf. Shakila Jacob, “Model of Welfare Capitalism? United States Rubber Company in Southeast Asia, 1910–1942,” *Enterprise & Society* 8, no. 1 (2007).

54 Witthoefft, Hamburg, to Max M. Warburg, Hamburg, June 20, 1925, SWA, C-119074.

55 Cf. correspondences and notes in: SWA, C-109074 und C-119075.

such investments.⁵⁶ Nevertheless, Helfferich purchased the Talang Padang plantation, including more than 3,700 bouws, for the Cultuur Maatschappij Soengei Langka in order to expand the company's coffee production.⁵⁷

In addition, the syndicate's management tried hard to reduce the costs of its products. Various approaches were considered and implemented, for instance the refinement of the plantings, the use of artificial fertilizers and the improvement of harvesting and processing methods.⁵⁸ The use of modern machinery seemed inevitable, as the government of the Dutch East Indies had banned both child labor and night work for women in factories; besides, it could have a positive effect on German industry.⁵⁹ For the modernization of the sugar factory in Gedaren, for example, the syndicate placed two major orders with Orenstein & Koppel and Fried. Krupp for a narrow-gauge railway, rolling stock, several bridges and a new powerhouse.⁶⁰

The syndicate members were reluctant to risk a listing on the Berlin stock exchange, before steady profitability had been reached.⁶¹ Therefore, the syndicate raised borrowed capital through the plantation companies: in 1927 and 1928, bonds with a volume of 1.6 million guilders were issued with the help of Deutsche Bank.⁶² It was against this backdrop that Kurt Weigelt, within the bank's secretariat responsible for the colonial department, took a closer look at the syndicate's 1927 annual report.⁶³ He gained the impression that the syndicate's plantations had developed into "first-class and cost-effective plantations", especially the rubber plantations, as his employees had determined in a detailed market analysis.⁶⁴

The Straits and Sunda Syndicate's annual general meeting decided to distribute a dividend for the first time in the company's history in the fall

56 SSSmbH, Rep. 1924, 1925, 1926 resp. 1927, 8–10, 13, 15–17, resp. 13, BMA, BM&C, SSS/4, 5, 6 resp. 7.

57 SSSmbH, Hamburg, Geschäftsführung, Helfferich, to the members of the supervisory board regarding Soengei Langka/Talang Padang, October 27, 1926 and November 10, 1926, HADB, S 1416; SSSmbH, Rep. 1926, 9–10, BMA, BM&C, SSS/6.

58 SSSmbH, Rep. 1926 and 1927, 4 resp. 1, 4–7, BMA, BM&C, SSS/6 resp. 7; Helfferich, *Leben*, 404–405.

59 SSSmbH, Rep. 1926, 11, 14, BMA, BM&C, SSS/6. For the labor conditions see: Desmond J. Tate, *The Making of Modern South-East Asia*, Vol. 2 (Oxford University Press 1971), 104–108.

60 Helfferich, *Ein Leben*, 400.

61 The plans go public on the Berlin stock exchange were postponed. Cf. note for Millington-Herrmann by Weigelt, February 18, 1927, HADB, S 1416.

62 SSSmbH, Rep. 1927, p. 2, BMA, BM&C, SSS/7.

63 DB, HqB, Weigelt, to Millington-Herrmann, Bad Nauheim, September 15, 1928, HADB, S 1416.

64 See the paper on the production costs of British rubber plantations, DB, [fall 1928], HADB, S 1416.

of 1928.⁶⁵ But to the regret of investors, the payout never materialized. Instead, new problems arose. While the prices for cinchona bark and coffee remained quite stable, tea prices fell and the rubber market literally collapsed after the British government had lifted its production restrictions.⁶⁶ The plantation companies of the Straits and Sunda Syndicate had hedged against falling prices by means of forward sales, but they had to cope with unexpected crop failures and additional expenditure for pest control, so their results were below expectations.⁶⁷ However, Weigelt from the Deutsche Bank's colonial department was optimistic. He was convinced that the "excellent economy" on the syndicate's rubber plantations would continue to give the company a strong lead in profitability.⁶⁸ A few days later, Weigelt wrote to Theodor Gunzert at the German Foreign Office, that he had long wanted to "confidentially inform" him about the development of the Straits and Sunda Syndicate, "which is completely unknown to the public."⁶⁹ The parties involved had placed great emphasis on expanding the syndicate "quietly" from their own income. As a result, the company is "the largest German colonial enterprise" today, he stated. To gain the favor of the Foreign Office for further expansion plans of the syndicate, he provided detailed documents on its economic situation: the net profits generated between 1923 and 1927, totaling 3.981 million guilders, were set against investments totaling 2.678 million guilders.

Coping with the world economic crisis: stabilization through production restrictions?

However, with the onset of the world economic crisis, the situation of the "largest German colonial company" deteriorated dramatically. After the collapse of the New York stock exchange on October 24, 1929, a general depression set in, which was reflected in falling prices for almost all products. The price of rubber in London, for example, was just 7 pence per pound in December 1929, halving in both 1930 and 1931, and reaching its lowest point at 1.6 pence in June 1932.⁷⁰ Attempts to curb rubber production by an international agreement failed due to the government of the

65 Note regarding the general meeting of the SSSmbH, [DB], October 3, 1928, HADB, S 1412.

66 SSSmbH, Rep. 1928, p. 1, BMA, BM&C, SSS/8.

67 SSSmbH, Rep. 1928, 11–12, BMA, BM&C, SSS/8.

68 DB, HqB, Weigelt, to Helfferich, SSSmbH, Hamburg, March 4, 1929, HADB, S 1416.

69 Weigelt, Berlin, to Gunzert, Berlin, March 7, 1929, HADB, S 1416.

70 SSSmbH, Rep. 1929, 4–6, BMA, BM&C, SSS/9; N. V. Straits and Sunda Syndicate's Administratie Kantoor in Batavia (since 1930: Sussak), Rep. 1930 and 1931, 4–5 resp. 4, BMA, BM&C, SSS/10 resp. 11; Linneweh-Kaçmaz, Formbarkeit, 297.

Dutch East Indies, which did not want to participate because of the large expansion of cultivation areas on its own territory in recent years.

Since the yields of all products – except cinchona bark – had collapsed, the only way for the Straits and Sunda Syndicate to ease its strained financial situation was to sell the large Talang Padang plantation.⁷¹ In addition to this substantial sale of land, the syndicate made an important organizational decision in 1930: the stakes of the Belgians, which had been transferred to the N. V. Straits and Sunda Syndicate's Administratie Kantoor in 1925, had been fully taken over by the German shareholders through the exercise of the options in the meantime, so that the Straits and Sunda Syndicate mbH in Hamburg could be dissolved. Its assets were now fully transferred to the N. V. Straits and Sunda Syndicate's Administratie Kantoor in Batavia, since then referred to as “Sussak” for short.⁷² Despite the efforts of Alexander Koch, the new managing director of Sussak in Batavia, to reduce spending, heavy losses were incurred in 1930, 1931, and 1932.⁷³ Further land sales were unavoidable, but a buyer could only be found for Halaban, the last remaining profitable cinchona plantation: in January 1932, after nerve-racking negotiations, a purchase agreement was concluded with the Dutch quinine manufacturers' syndicate.⁷⁴ As a consequence, Sussak became more dependent than ever on tea and rubber prices. The land under cultivation, which at the end of 1930 still had amounted to 10,850 bouws, was reduced by about 40 percent due to the sale of Talang Padang and Halaban.⁷⁵

By the end of 1932, the downward trend in tea and rubber prices came to a halt.⁷⁶ The growing willingness to agree on internationally coordinated production restrictions had contributed significantly to this. In the following years, Sussak's management advocated vehemently for production restrictions. On the rubber market they considered a consolidation “in a natural way” to be impossible, because the small plantations of the indigenous population would be taken back into operation immediately with even a slight increase in prices.⁷⁷ From a political point of view,

71 SSSmbH, Rep. 1929, 7, 10–13, BMA, BM&C, SSS/9; Helfferich, *Ein Leben*, 405, 432.

72 SSSmbH, Hamburg, Helfferich/Friedrichs, to Carl Melchior, Max M. Warburg & Co., Hamburg, December 12, 1928, SWA, C-119076; SSSmbH, Hamburg, Helfferich/Friedrichs, to Deutsche Bank und Disconto-Gesellschaft, HqB, March 7, 1930, HADB, S 1412. – The SSSmbH, on the other hand, went into liquidation in 1930. Cf. SSSmbH, Geschäftsführung, Helfferich/Friedrichs, to Deutsche Bank und Disconto-Gesellschaft, December 24, 1930, HADB, S 1412. The de facto liquidation took place in May 1936.

73 Sussak, Rep. 1930 and 1931, p. 2 and attachment N resp. p. 12, BMA, BM&C, SSS/10 resp. 11.

74 On the negotiations: Helfferich, *Ein Leben*, 442–448; Sussak, Rep. 1931, 2, 10, BMA, BM&C, SSS/11.

75 Sussak, Rep. 1930 and 1932, attachment A in each case, BMA, BM&C, SSS/10 resp. 12.

76 Sussak, Rep. 1931 and 1932, 2 resp. 1–2, 11, BMA, BM&C, SSS/11 resp. 12.

77 Sussak, Rep. 1932, 5–6, BMA, BM&C, SSS/12.

the development of small-scale production in the hands of the indigenous population would be desirable, but according to Sussak's management this could not be taken into account in the restriction plans, since only large-scale plantations would offer the guarantee that restrictions could be effectively enforced for the benefit of all. In the eyes of Sussak's management the *International Rubber Regulation Agreement* (IRRA), which took effect on June 1, 1934, had weaknesses, but in 1935, rubber prices went up again.⁷⁸

The world economy seemed to be stabilizing in the second half of the 1930s, which was reflected in the rubber market by growing consumption, declining inventories and rising prices.⁷⁹ However, the situation deteriorated again when the U.S. economy slowed and demand for rubber began to fall accordingly.⁸⁰ While Arnold Otto Meyer and Sussak's management believed that the global economic crisis had been overcome and that they could now try to expand the Straits and Sunda Syndicate again, other partners in the syndicate drew a sobering balance of their long-standing participation in the fall of 1937. Deutsche Bank and Disconto-Gesellschaft, for example, stated that the syndicate had never ever paid a dividend and still had not achieved reliable earnings stability.⁸¹ Necessary write-offs had been postponed, and plantations were partially abandoned. Even the sale of further plantations was practically impossible due to the bonds being taken up. The bank gave serious thought to how it could further reduce its exposure and limit impending losses. In its view, the strategy of stabilization through production restrictions had largely failed, and in the face of the progressive disintegration of the world economy into various blocks seeking autarky, there was little realistic chance of restoring global markets for the syndicate's products.

The Second World War and its aftermath: confiscation, fiduciary management and partial restitution

When Sussak's management presented its 1938 annual report in the summer of 1939, the global economic situation had deteriorated further and massive political uncertainty had been added in Europe with the German invasion of Prague on March 15, 1939.⁸² The Dutch East Indies were not

78 Sussak, Rep. 1934, 4–8, BMA, BM&C, SSS/14; Sussak, Rep. 1935, 7–10, BMA, BM&C, SSS/15. – Cf. also Linneweh-Kaçmaz, *Formbarkeit*, 297–335; Andrew McFadyean (Ed.), *The History of Rubber Regulation 1934–1943* (Allen Urwin, 1944).

79 On Sussak's earnings: Sussak, Rep. 1936, 4–6, 8, 12–13 and attachment A, BMA, BM&C, SSS/16; Correspondence in: SWA, C-119067 und C-119080.

80 Sussak, Rep. 1937, p. 1, BMA, BM&C, SSS/17.

81 Note of the Deutsche Bank und Disconto-Gesellschaft, September 1, 1937, HADB, S 1412.

82 Sussak, Rep. 1938, 1, 6, 17, BMA, BM&C, SSS/18.

unaffected by this, as exports from there again fell sharply. Ten months later, after German troops had invaded the neighboring Netherlands on May 10, 1940, thereby bringing about the state of war, Sussak was confiscated and handed over to the Nederlandse Trust Maatschappij in Batavia for fiduciary administration.⁸³ The Arnold Otto Meyer company set up a Sussak branch in occupied Amsterdam, to manage the available financial resources and make pension payments. However, it was unable to re-establish contact with Sussak in Batavia. It was only with the Japanese occupation of the Dutch East Indies and the Dutch capitulation in March 1942, that the chances of gaining new insights into the situation of the plantation companies seemed to increase.⁸⁴ Helfferich, who had risen to become chairman of the supervisory board, informed its members on October 5, 1942, that according to Helmut J. L. Bartels-Troje, the former director of Behn, Meyer & Co. Ltd. in Surabaya, “our Japanese friends, the Nankoku Sanyo Company” declared their willingness to “take over the administration of our plantations until further notice.”⁸⁵ But Helfferich’s attempts to find out more about the Sussak plantations via Bartels-Troje, who, as the former German consul in Surabaya, maintained close ties to the German Embassy in Tokyo, yielded only scant information.

With the political upheavals that resulted from the Japanese occupation and the Indonesian struggle for independence, little changed for Sussak in the following years. Still under Japanese occupation, Indonesia declared its independence in 1943 and repeated this declaration immediately after the end of Japanese rule over the Dutch East Indies on August 17, 1945.⁸⁶ Since the Netherlands were not prepared to withdraw as a colonial power, a guerrilla war broke out that only ended on December 27, 1949, with the official transfer of sovereignty from the Netherlands to the Republic of Indonesia.⁸⁷ Sussak, however, remained under the fiduciary administration. Its shareholders began to seek more clarity about the exact ownership structure and the possibilities of restitution.⁸⁸ But they only succeeded to a

83 At that time, its share capital amounted to 2.5 million guilders. Cf. Emil Helfferich, Hamburg, to Khouw Bian Tie, c/o Bank Indonesia, London, February 11, 1960, BMA, BM&C, SSS/21.

84 On the Japanese occupation: Fritz Schulze, *Kleine Geschichte Indonesiens: Von den Inselkönigreichen zum modernen Großstaat* (C.H.Beck, 2015), 125–128; Remco Raben, *Representing the Japanese Occupation of Indonesia: Personal Testimonies and Public Images in Indonesia, Japan, and the Netherlands* (Waanders, 1999).

85 Helfferich to the members of the supervisory board of Sussak, October 5, 1942, BMA, BM&C, SSS/21.

86 On the Indonesian struggle for independence: Anthony Reid, *The Indonesian National Revolution 1945–1950* (Greenwood Press, 1986).

87 The Dutch colony of New Guinea did not gain its independence until 1954.

88 Helfferich, Hamburg, to Khouw Bian Tie, c/o Bank Indonesia, London, February 11, 1960, BMA, BM&C, SSS/21.

limited extent. In September 1959, the Republic of Indonesia entered into an agreement to purchase the assets of the so-called Warburg Group, which consisted of the non-German owners of Sussak.⁸⁹ Continued attempts by the German group, which included Deutsche Bank, Commerz- und Privatbank, Arnold Otto Meyer, Münchmeyer & Co. and the two privateers H. Diederichsen and G. W. v. Mallinckrodt, to reach a similar agreement were, in contrast, unsuccessful. Despite intensive efforts to obtain diplomatic support from the German Foreign Office, they ultimately came to nothing.⁹⁰

Summary and Conclusion

The example of the Straits and Sunda Syndicate shows that German trading houses and banks were quite cautious when they tried to intensify their investments in the plantation economy of Southeast Asia. Since they would not be operating in a German colony and had no experience in this line of business, they decided to share the risks with a group of Belgian investors. Only after external experts had examined the possible investment projects, a limited liability company was set up, which was endowed with little capital and had a clearly limited credit volume. Under this umbrella, however, they managed to establish a series of plantation companies in just a few years. Whether they differed from Dutch or other European plantation companies, for example in the way they treated locals and contract workers, cannot be answered due to the lack of meaningful sources.

Their growing readiness to take greater risks and to form additional consortia also to invest in transportation, electrification, and other technologies throughout East Asia, was thwarted by the First World War. During the war, British sanctions against German companies made it extremely difficult for the syndicate to export their products. Only the willingness to sell plantations ensured the syndicate's survival. With a new strategy based on sales of land, rationalization efforts, diversification into new crops, and new business contacts with Japanese firms, the syndicate managed to make a fresh start after the war. While Germany lost all its colonies and the respective private investments at the same time, the Straits and Sunda Syndicate benefited

89 In addition to Warburg & Co. in Amsterdam and Fritz M. Warburg and his wife in Stockholm, the Warburg Group included A. Michelis in Zurich and A. F. Rhodius in Amsterdam. Cf. the documentation of the negotiations in: SWA, C-119081 und C-119087.

90 Cf. Bartels-Troje, AOM, Hamburg, to Linsser, Foreign Office, Bonn, December 3, 1969, BMA, BM&C, SSS/22; Note and minutes of the Sussak's shareholder meeting in Hamburg on January 12, 1971, BMA, BM&C, SSS/23; Bassler, former Ambassador of the Federal Republic of Germany to the Republic of Indonesia, Bad Godesberg, to Bartels-Troje, Hamburg, March 15, 1971, BMA, BM&C, SSS/23.

from the fact that it was based in a Dutch colony. The politically necessary separation from the Belgian investors led to the economic empowerment of a joint-stock company under Dutch law. However, the shares were not available on the stock exchange but remained in the hands of the German syndicate members, who had to pay off their former Belgian partners. The company's strategy focused on limited diversification and vigorous rationalization in the 1920s, combined with a cautious credit-financed expansion. Based on this strategy the company was able to strengthen its competitiveness in the global tea, rubber and cinchona markets. In 1928, the payment of a dividend to investors seemed to be justified for the first time in the company's history.

But these plans could not be realized. Instead, the world economic crisis of 1929 forced the syndicate to sell large plantations and to abandon its proven diversification strategy. The management advocated vehemently international production restrictions, without being able to recover profitability again. With the outbreak of the Second World War, the economic decline of the consortium became inevitable. The attempts of the German investors to recover their confiscated property after the war were unsuccessful. Although they had approached the plan to increase their investments in the plantation economy of Southeast Asia with such great caution and had developed appropriate strategies to manage the high economic risks posed by the volatile markets for their products during the 1920s and 1930s, they had to accept the complete loss of their capital without ever having made a profit.

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PART II

**Postcolonial Profiteers?
Challenges and
Opportunities for German
Companies in Nationalising
Economies**



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5 Navigating Postcolonial Landscapes

Analyzing the Strategies of German Corporations in Malaysia during the 1970s

Shakila Yacob and Marie Huber

Introduction

During the late 19th century, German businesses established a significant presence in Southeast Asia, particularly in the trading hubs of Singapore and Batavia (Jakarta), under British and Dutch colonial rule, respectively. Although latecomers to the region, they gradually rivaled British and Dutch firms by adopting more flexible and locally oriented trade policies. Before World War I, Germany's production regime underwent restructuring, favoring non-competitive market coordination through cartels and corporate networks.¹ Backed by the German Reich, these businesses thrived, effectively competing with their European counterparts. The political context of their establishment was shaped by European imperialism, rising nationalism, and Germany's strategic interests. As European powers vied for colonial territories in the late 1800s, Germany, a late entrant to colonialism, sought economic and geopolitical influence in Southeast Asia.²

The establishment of German businesses in Southeast Asia was facilitated by treaties and agreements that delineated colonial spheres of influence. For example, the 1885 Anglo-Spanish-German Treaty of 1885 enabled Germany to claim territory in Borneo, curtailing Spanish ambitions and allowing German firms to engage in trade and resource extraction.³ Such diplomatic negotiations were crucial in shaping the political environment

1 Werner Abelshauser, „Umbruch und Persistenz: Das deutsche Produktionsregime in historischer Perspektive,“ *Geschichte und Gesellschaft* 27, no. 4 (2001): 509.

2 Matthew P. Fitzpatrick, *The Kaiser and the Colonies: Monarchy in the Age of Empire*, 1st ed., (Oxford University Press, 2022).

3 Leigh R. Wright, “The Anglo-Spanish-German Treaty of 1885: A Step in the Development of British Hegemony in North Borneo,” *Australian Journal of Politics & History* 18, no. 1 (1972): 62–75.; Benjamin Lindquist, “The Art of Text-to-Speech,” *Critical Inquiry* 50, no. 2 (2023): 230.

conducive to German commercial success amidst British and Dutch dominance. The political context was further defined by rising nationalism and economic expansionism. Following its unification in 1871, the German Empire sought to assert itself as a global power, acquiring colonies to bolster its economy and enhance national prestige. This ambition drove the creation of trading companies and the exploitation of Southeast Asia's agricultural and mineral resources, which were deemed crucial for sustaining Germany's industrial growth.⁴ The political climate of the time encouraged ventures that capitalized on the regional resources, aligning with the empire's broader economic and strategic goals.

Additionally, Southeast Asia's political landscape was undergoing a profound transformation, as local kingdoms and states grappled with internal conflicts and external colonial pressures. These conditions enabled German businesses to negotiate favorable terms and establish operations. By adeptly navigating the interplay between local dynamics and foreign ambitions, German enterprises often formed alliances with local elites, leveraging these partnerships to facilitate their commercial activities and expand their influence in the region.⁵

By the 1860s, 15 German merchant firms had established a presence in Singapore, with Behn Meyer & Co. Ltd., founded in 1840, emerging as the most prominent.⁶ By the outbreak of World War I, the company had expanded its operations to include 11 branches across East Asia.⁷ During both World Wars, German businesses were eliminated or expropriated due to their perceived alignment with enemy powers. While some German firms left the region entirely, others, such as the fifth-generation family-owned Behn Meyer, managed to rebuild and thrive in the postcolonial years. Despite facing significant disruptions, including a ten-year ban imposed by the returning British colonial government after World War II, Behn Meyer demonstrated remarkable resilience.⁸ What factors contributed to

4 Hui Kian Kwee, "Chinese economic dominance in Southeast Asia: A longue duree perspective." *Comparative Studies in Society and History* 55, no. 1 (2013): 5–34; Kim S. Todzi, *Unternehmen Weltaneignung: Der Woermann-Konzern Und Der Deutsche Kolonialismus 1837-1916*, (Wallstein Verlag, 2023).

5 Tristan Oestermann, "A Colony of Opportunity: African Economy Intermediaries, Rubber, and Capitalism in German Colonial Cameroon, 1884–1914," *Vierteljahrschrift für Sozial- und Wirtschaftsgeschichte* 112, no. 2 (2025); See also Friederike Sattler's chapter in this volume.

6 George Bogaars, "The Effect of the Opening of the Suez Canal on the Trade and Development of Singapore." *Journal of the Malayan Branch of the Royal Asiatic Society* 38 (1955), 111 and 114.

7 Shakila Yacob, *The United States and the Malaysian Economy* (Routledge Curzon, 2008), 15–33.

8 Shakila Yacob, "Rising of the Phoenix: Mitigating Political Risk through Knowledge Management – Behn, Meyer & Co., 1840–1959." *Enterprise & Society*, 19 no. 4

Behn Meyer's ability to recover and grow in Southeast Asia, particularly in Malaysia, and what set it apart from other European (mainly British) firms that chose to divest during the postcolonial period? How did Behn Meyer's strategies reflect a "third way" of survival that transcended simplistic narratives of resistance or capitulation to indigenization pressures, offering broader insights into business adaptability in postcolonial environments?

In their corporate history, Behn Meyer presents the pragmatic adaptation to changing and adverse political environments (be it during the period of NS-rule in Germany, the apartheid regime in South Africa or the rigid protectionist policies in Indonesia after independence) as "survival actions" for German overseas merchants.⁹ Once the ten-year ban on German companies, imposed by British administrators, expired in 1954, German firms, including Behn Meyer, moved swiftly to reestablish their prewar trade ties in the region.¹⁰ Fuelled by a soaring demand in raw materials, especially tin and rubber, Behn Meyer experienced rapid growth in the 1950s. In addition to the boom in raw materials, traditional German overseas merchants such as Behn Meyer were key drivers for opening up foreign export markets for the German industry after the war. In an environment where export business was not feasible for the smaller and medium-sized German companies, trading houses with established networks were ideally positioned to facilitate global market entry of companies like Olympia and AEG.¹¹

By 1958, discussions between the German government and the newly independent Federation of Malaya were underway to establish a Volkswagen car assembly plant, symbolizing a renewed era of economic cooperation and industrial development.¹² In 1960, the Federation of Malaya signed a five-year investment protection agreement with West Germany, marking a departure from British-era restrictions and fostering renewed confidence among German investors.¹³ This resurgence of German commercial interests in Malaya reflected broader patterns of how firms navigated the transition from colonial to postcolonial contexts. Rather than withdrawing entirely, many businesses adapted by fostering local legitimacy and securing goodwill, positioning themselves for long-term success in an evolving political and economic landscape.

(2018): 946–978; Shakila Yacob, "Trans-Generational Renewal as Managerial Succession: The Behn Meyer Story (1840–2000)." *Business History* 57, no. 7 (2012): 1166–1185.

9 Fritz Kleinsteuber, *Merchants Beyond the Seas: Die Geschichte des Handelshauses Behn Meyer* (Behn Meyer, 2018), 287.

10 "German Technicians May Come to Malaya Soon," *Singapore Standard*, 19 July 1951, 9; "German Exporters Plan a Comeback," *Singapore Standard*, 1 November 1954, 9.

11 Kleinsteuber, *Merchants Beyond the Seas*, 307.

12 "Talks on for a German Car Plant in Federation," *The Straits Budget*, 24 September 1958, 11.

13 "Protection guarantee for West German investors," *The Straits Times*, 23 December 1960, 9.

As Minton (2020) demonstrates through the case of Shell-BP in Nigeria, multinational corporations actively devised strategies to maintain their presence by aligning with nationalist politicians and engaging the public in newly independent states.¹⁴ Similarly, Decker's (2010) analysis of British firms in West Africa underscores how companies restructured operations to accommodate pressures for local empowerment while safeguarding their business interests.¹⁵ These studies highlight that firms that successfully navigated this transition often repositioned themselves as partners in national development, balancing adaptation with the preservation of core operations. While much scholarly attention has focused on plantation economies and commodity production in both colonial and postcolonial contexts, trading firms played a distinct and crucial role in shaping commercial relations.

Dejung (2018) demonstrates in his study of Volkart Bros. how trading houses functioned as key intermediaries in a multicultural business world, facilitating connections between European, Indian, Chinese, and Latin American mercantile elites.¹⁶ Unlike plantation enterprises that depended on direct resource extraction, trading firms concentrated on building commercial networks. This distinction is further underscored by Zollmann (2020), who examines German commercial interests and their long-standing trade relationships in Africa and the Pacific. Even before formal colonization, German Hansa merchants operated independently of territorial control, focusing on commercial exchange rather than resource ownership.¹⁷

Recent research has begun to challenge the traditional narrative that views indigenization policies and foreign business interests as inherently antagonistic in postcolonial contexts. Nthenya and Donz e's (2023) analysis of East African Airways Corporation demonstrates how foreign expertise and local ownership goals could complement each other, with foreign organizations providing essential training for African pilots, engineers, and managers to support indigenization efforts.¹⁸ This perspective aligns with Lubinski and

14 Chris Minton, "A Partner in Progress? Shell-BP's Development Role in Nigeria During the Transition to Independence," in *The Business of Development in Post-Colonial Africa*, ed. V eronique Dimier and Sarah Stockwell (Springer International Publishing, 2020).

15 Stephanie Decker, "Postcolonial Transitions in Africa: Decolonization in West Africa and Present Day South Africa," *Journal of Management Studies* 47, no. 5 (2010): 791–813.

16 Christof Dejung, *Commodity Trading, Globalization and the Colonial World: Spinning the Web of the Global Market* (Taylor & Francis Group, 2018).

17 Jakob Zollmann, "Neither the State nor the Individual Goes to the Colony in Order to Make a Bad Business": State and Private Enterprise in the Making of Commercial Law in the German Colonies, ca. 1884 to 1914," in *Colonial Adventures: Commercial Law and Practice in the Making*, ed. Serge Dauchy et al. (Brill, 2020).

18 Nahashon Nzioka Nthenya and Pierre-Yves Donz e, "Indigenization and the Long-Term Formation of Human Capital in Africa: The Airline Industry in East Africa Since 1946," *Enterprise & Society* 24, no. 4 (2023): 987–1013.

Kipping's (2015) broader observation that foreign multinationals have historically developed diverse strategies to navigate the institutional complexities of emerging markets, suggesting that successful firms found ways to align their interests with national development objectives.¹⁹ These studies reveal how foreign firms could act as enablers rather than obstacles to indigenization, particularly in sectors requiring specialized technical knowledge and management expertise.

In this context, Behn Meyer's reintegration into Malaya's economy offers a compelling case of how trading firms adapted to postcolonial challenges. By leveraging historical ties, aligning with new regulatory frameworks, and positioning themselves within the evolving economic landscape, Behn Meyer reflects the adaptive strategies identified in these broader studies. The firm's ability to comply with local policies, build partnerships, and remain operationally flexible highlights its role in supporting postcolonial economic transition. Together, these examples highlight the nuanced ways in which foreign firms navigated postcolonial transformations, challenging simplistic narratives of resistance or withdrawal.

This chapter examines Behn Meyer's strategic response to the implementation of Malaysia's New Economic Policy (NEP) in 1971, which required foreign firms to partner with or form joint ventures with Bumiputera companies. The first section provides an overview of the NEP, outlining its primary objectives to foster economic growth, reduce disparities among the Bumiputera majority, and promote localization through policies such as equity redistribution and indigenization quotas in employment. The challenges faced by Behn Meyer, a foreign firm, in navigating the mandatory restructuring measures of NEP are discussed in section two. These included relinquishing ownership shares, giving up decision-making power, and complying with indigenization quotas for both equity ownership and staffing. Despite these significant hurdles, Behn Meyer's ability to successfully adapt to these policies serves as a valuable case study of how foreign firms can thrive in a postcolonial business environment.

The third section highlights the important role of state-business relations and local cooperation in navigating the evolving security dynamics of the postcolonial landscape. In the colonial period, firms largely relied on state support from their home countries and often had little concern for building local political relations. However, the postcolonial era marked a shift where firms like Behn Meyer recognized the necessity of building strong local political and business relationships to secure their interests. The fourth section

19 Christina Lubinski and Matthias Kipping, "Introduction: Translating Potential into Profits: Foreign Multinationals in Emerging Markets since the Nineteenth Century," *Management & Organizational History* 10, no. 2 (2015): 93–102.

underscores the importance of business versatility in adapting to changing state policies. The postcolonial period necessitated that foreign firms develop relationships with a variety of local actors, including government officials and business leaders. Those firms with a history of cooperation and engagement in local affairs demonstrated greater adaptability and resilience, successfully navigating the increasingly complex political and economic landscape. Finally, the fifth section concludes by reflecting on the broader implications of Behn Meyer's experience for understanding the strategic compliance of foreign firms with postcolonial economic policies, offering insights into the factors that determine success in a transitioning business environment.

New Economic Policy in Postcolonial Malaysia

Following Malaysian independence, the economy largely remained under British control until the mid-1970s.²⁰ Although the 1960s welcomed significant Western foreign direct investment (FDI), including from West Germany, domestic socioeconomic tensions persisted. The rural Malay majority remained mired in poverty, fueling growing demands for economic equity. Discussions among ministers about the Malaysianization of businesses reflected differing approaches—some favored a conciliatory path, while others advocated for a hardline stance.²¹ Meanwhile, senior political leaders were preoccupied with formidable challenges, including managing the communist insurgency during the Emergency (1948–1960), navigating the complexities of Malaysia's formation in 1963, and addressing Indonesia's opposition to the federation during *Konfrontasi* (1963–1966). By 1965, internal political and economic tensions culminated in Singapore's expulsion from Malaysia. These challenges were further exacerbated by significant ethnic tensions rooted in economic disparities. The situation came to a head with the May 13, 1969, racial riots, which underscored the urgent need for socioeconomic reform. This marked a turning point, prompting a shift in leadership that prioritized poverty alleviation and the economic integration of the Malay community into the nation's growing economy.

While Behn Meyer had to contend with the British colonial government's stance against Germany as a wartime adversary and the general discrimination

20 James Joseph Puthuchery, *Ownership and control in the Malayan economy: a study of the structure of ownership and control and its effects on the development of secondary industries and economic growth in Malaya and Singapore* (Insan, 2004).

21 The National Archives, London (hereafter TNA), DO 189/588, File No. AED 110/30/1, Malayanisation (including employment of expatriates in business), 1964–66.

faced by German firms, in postcolonial Malaysia, the challenges shifted to navigating a newly established government striving not only for political self-determination but also economic independence. Malaysia achieved independence in 1957, and since the early 1960s, the Malaysian government has been working to implement measures aimed at Malaysianization, including the establishment of a Standing Committee to deliberate on the necessary steps. A circular from the International Chamber of Commerce, dated May 16, 1970, provided an overview of the current Malaysianization developments. The Chamber Committee's primary concern was the significant reduction in expatriate staff by the end of 1970, which had created challenges in filling key positions and retaining or recruiting experienced technical personnel due to a lack of suitably qualified Malaysians. Key posts, which were exempt from Malaysianization to ensure overseas investor confidence, were granted sparingly and were subject to specific criteria, with flexibility in their use discouraged, as Malaysianizing such posts could make it difficult to reverse the decision.

Behn Meyer's response, as outlined in the note, was cautious and strategic. The company chose to delay its negotiations with the Standing Committee, opting first to observe the progress of the Chamber of Commerce's discussions and evaluate the outcomes for other firms. This approach reflects a calculated effort to gather insights and mitigate risks before engaging in direct discussions on Malaysianization.

In the postcolonial era, many former colonies sought to assert their economic independence and promote the development of indigenous industries. Policies such as the New Economic Policy (NEP) aimed to rectify historical inequalities by redistributing economic resources and opportunities to marginalized groups such as the Bumiputeras in Malaysia.²² The NEP was introduced in Malaysia in 1971 with the primary goal of reducing poverty and addressing economic disparities, particularly among the Bumiputera majority. A key strategy for promoting capital accumulation and improving the economic and social status of Malays was the restructuring of "equity ownership," formalized through the Industrial Coordination Act of 1975. The aim was to raise Bumiputera equity ownership to 30 percent, a goal often referred to as the "30 percent solution."²³ This policy had significant implications for foreign firms operating in Malaysia, as it sought to redress the unequal distribution of wealth and increase economic participation among Malays.

22 Bumiputera literally means "sons of the soil" and refers to ethnic Malays, other indigenous Malaysians are referred to collectively as Bumiputera.

23 Boo Teik Khoo, *Paradoxes of Mahathirism: An Intellectual Biography of Mahathir Mohamad* (Oxford University Press, 1995), 104.

To achieve this, the government introduced measures such as the establishment of Bumiputera-owned enterprises and the promotion of joint ventures with foreign companies. The strategy was designed to increase Bumiputera ownership and control of the economy while enabling access to capital, technology, and managerial expertise from foreign partners. As part of this effort, NEP required that a specified percentage of shares in joint ventures be held by Bumiputera individuals or firms, further increasing their participation in the economy. Foreign firms operating in Malaysia were mandated to comply with the “30 percent solution,” which had a profound impact on their operations. While some firms resisted the policy, others adapted by forming successful partnerships with Bumiputera-owned enterprises.²⁴

In addition to equity ownership, the strategy included provisions for the transfer of technology and management skills to Bumiputera partners, aimed at enhancing local capabilities, reducing dependency on foreign enterprises, and fostering broader economic development. Another key strategy within the framework of Malaysianization was to promote Bumiputera representation in the country’s economy by encouraging their participation in executive positions within firms. The NEP, as an affirmative action program, established quotas for Bumiputera representation in management roles and provided incentives for businesses to increase the number of Bumiputera in senior management positions. The objective was to create greater opportunities for the Bumiputera community, allowing them to engage in decision-making processes and enhance their involvement in both the management and ownership of businesses. However, these policies have been contentious, with critics arguing that they may discourage foreign investment, hinder economic growth, and contribute to a rent-seeking mentality.²⁵

24 Shakila Jacob and Khadijah Md. Khalid, “Adapt or Divest? The New Economic Policy and Foreign Businesses in Malaysia (1970–2000),” *Journal of Imperial and Commonwealth History* 40, no. 3 (2012):459–482.

25 There is a substantial corpus of literature on the New Economic Policy (NEP), with most scholars providing critical assessments of this affirmative policy and its overall impact on economic growth in Malaysia. Among the scholars who have contributed to this body of work are R. Thillainathan and Kee-Cheok Cheong, “Malaysia’s New Economic Policy, Growth and Distribution: Revisiting the Debate,” *Malaysian Journal of Economic Studies* 53, no. 1 (2016): 51–68; E.T. Gomez, “Nurturing Bumiputera Capital: SMEs, Entrepreneurship and the New Economic Policy,” in *The New Economic Policy in Malaysia: Affirmative Action, Ethnic Inequalities and Social Justice*, ed. E.T. Gomez and J. Saravanamuttu (NUS Press, ISEAS Publishing and Strategic Information and Research Development Centre, 2013); Gomez, E.T. and K.S. Jomo, *Malaysia’s Political Economy: Politics, Patronage and Profits* (Cambridge University Press, 1999); Gomez, E.T. and J. Saravanamuttu, eds., *The New Economic Policy in Malaysia: Affirmative Action, Ethnic Inequalities and Social Justice*, Singapore (NUS Press, ISEAS Publishing and Strategic Information and Research

Behn Meyer's Compliance with NEP Malaysianization Policies through Joint Ventures

The implementation of the Malaysianization initiative in the early 1970s, following the establishment of the NEP, was initially met with suspicion by most foreign firms. British corporations operating in Malaysia responded defensively to the Malaysianization policy, using strategies such as cross-shareholdings and geographic diversification to decrease the appeal of takeovers.²⁶ British plantation companies were vulnerable to acquisition attempts due to their significant land-based assets and control over natural resources. The neocolonial mindset—marked by a reluctance to relinquish economic dominance and a perception of local governance as incapable of managing key industries—of British officials and businessmen was widely recognized by Malaysian leaders, administrators, and scholars, leading to increased scrutiny of British firms and irritation among Malaysian political leaders and administrators.²⁷

West Germany's share of Malaysian trade remained relatively modest, fluctuating from 4.85% in 1976 to 4.56% in 1977 before increasing to 5.10% in 1978. Although more than 43 German firms operated in Malaysia, their historical presence was relatively limited compared to well-established corporations such as Bayer, Hoechst, Lufthansa, Schmidt, Schindler, Siemens, and Staedtler.²⁸ Among them, Behn Meyer played a particularly significant role, accounting for approximately 25% of total Malaysian German trade.²⁹ While initially approaching the Malaysianization initiatives with caution—expressing a strategic inclination to “test the economic winds before committing”³⁰—Behn Meyer ultimately demonstrated a greater willingness to adapt compared to its British counterparts.³¹ Several factors contributed to German firms' smoother adaptation to the evolving business environment. First, the structure and nature of German firms, which were predominantly trading companies, meant they faced less regulatory

Development Centre, 2013); J.K. van Donge et al. “Tracking Development in South-East Asia and Sub-Saharan Africa: The Primacy of Policy,” *Development Policy Review* 30 (2012): 5–24; D. Henley, “The Agrarian Roots of Industrial Growth: Rural Development in South-East Asia and Sub-Saharan Africa,” *Development Policy Review* 30 (2012): 25–47.

26 Jacob and Md. Khalid, “Adapt or Divest.”

27 Interviews with Mahathir Mohammad, 4 March 2021 and Tengku Razaleigh Hamzah, 26 April 2022. See also, Nicholas J. White, *British Business in Post-Colonial Malaysia, 1957–70: 'Neo-colonialism or 'Disengagement'?* (Routledge, 2004).

28 “Malaysia: Waiting for Better Economic Ties.” *Insight*, October 1979, 36.

29 *Ibid.*

30 *Ibid.*

31 Interview with Juergen Herbert Friele, former director and consultant of the Behn Meyer Group, 20 Jul. 2017.

scrutiny and pressure compared to British firms heavily invested in large-scale plantations or resource extraction. Unlike those sectors, trading companies did not own vast tracts of land or hold strategic assets, reducing their exposure to Malaysianization policies. Eventually, most British firms divested and refocused on developed economies, while others, influenced by state-driven policies and economic restructuring, were acquired by state enterprises, marking the end of British control in Malaysia.³² Additionally, German businesses prioritized fostering local, non-exploitative, and mutually respectful partnerships, making them more aligned with the objectives of the NEP. These collaborations facilitated increased Bumiputera participation in the economy and helped integrate German investments with national goals. By the mid-1970s, German enterprises had proactively adjusted their operations to support the NEP's requirements, demonstrating their commitment to compliance and economic collaboration.

One example of Behn Meyer's adaptive strategies was the establishment of BM Engineering Sdn Bhd in the 1970s, among the first joint ventures in the region.³³ Initiated by Arnold Otto Meyer of Hamburg (Behn Meyer's parent company), Munck International of Norway, and Pernas, the venture aimed to supply cranes to Southeast Asia, including Singapore, Thailand, and Indonesia.³⁴ BM Engineering focused on training Malaysians, particularly Bumiputras, in technical skills while utilizing local materials to support regional markets. Although top positions remained with Germans, the venture exemplified how foreign firms could align with Malaysian nationalist objectives by fostering local expertise and economic growth.³⁵ By 1985, companies like BM Engineering (40%), BM Jiss (51%), and Interpac (55%) reflected significant Bumiputra ownership.³⁶ These efforts underscored Behn Meyer's proactive approach to navigating indigenization policies while protecting its core interests. By forming enduring partnerships and contributing to Malaysia's long-term economic success, Behn Meyer exemplified the "third way" of survival—balancing flexibility, local collaboration, and diversified operations to thrive in a postcolonial environment.

Behn Meyer further demonstrated its commitment to the NEP by restructuring its entities to comply with Bumiputra equity requirements, as exemplified in the two case studies discussed in detail in the following section.

32 Jacob and Md. Khalid, "Adapt or Divest," 466–467.

33 String of success now another 'first...*The Straits Times*, 7 Sept. 1972, 18.

34 Warta Behn Meyer, October 1974.

35 String of success now another 'first...*The Straits Times*, 7 Sept. 1972, 18.

36 Letter from Behn Meyer & Co to Foreign Investment Committee, Prime Ministers Department, 17 April 1985, in: BMA_BM&C MY/92.

Case Study: Establishment of Felda Pertanian Meyer Sdn. Bhd. – A Strategic Joint Venture in Malaysia’s Fertilizer Industry

In the mid-1970s, Behn Meyer partnered with KPM Niaga to establish Pertanian Meyer Majubumi Sdn. Bhd., a joint venture focused on manufacturing, mixing, and distributing fertilizers in Malaysia. The 1975–1979 formation period involved intricate planning and negotiations to create a robust legal framework that balanced safeguarding both parties’ interests with compliance to national economic directives. This process highlights the strategic, legal, and social dimensions of Behn Meyer’s adaptability and contributions to Malaysia’s development goals. A key concern during the negotiations was preventing undesirable shifts in control, particularly from competitors like British-owned Imperial Chemical Industries (ICI). Telex communications from 1975 reveal anxieties over KPM Niaga potentially selling shares in ways that could destabilize the venture.³⁷ To address this, agreements were crafted to regulate share sales, enforce preemptive rights, and define management structures, ensuring the venture’s long-term stability and alignment with its objectives.

The establishment of Pertanian Meyer Majubumi Sdn. Bhd. marked a milestone in Behn Meyer’s history in Malaysia, showcasing its ability to forge strategic partnerships, navigate regulatory complexities, and align with national development goals. A key feature of the joint venture was the management service charge agreement, which stipulated payments of \$2.5 million per ton of product from the venture to Behn Meyer.³⁸ This arrangement underscored Behn Meyer’s contribution of expertise and resources, ensuring operational efficiency and profitability while addressing broader discussions on profit distribution.

Negotiations also focused on sales agreements, competitive dynamics between Behn Meyer and KPM Niaga, and the creation of a balanced management structure. It was agreed that Behn Meyer and KPM Niaga would serve as the exclusive selling and purchasing agents for the fertilizer company.³⁹ Additionally, the joint venture faced stringent regulatory scrutiny, including Malaysia’s mandate for 70% Malaysian ownership to promote Bumiputra participation. Initially proposing a 50-50 ownership split, Behn Meyer demonstrated flexibility by introducing a third partner to meet these

37 Telex no. 4, 24.7.1975, Thomas (Alfred Peter Otto) an AOM Sekretariat Hamburg, in: BMA_BM&C MY/87.

38 Anweisungen zur Ausarbeitung der joint venture und Statuten (memorandum of association, joint venture agreement und sales agreement), Fernschreib-Mitteilung von RAS/AUS “for management”, 12.6.1975, in: BMA_BM&C MY/87).

39 Letter from BM Managing Director in Singapore to Secretariat Hamburg, 10.9.1975, in: BMA_BM&C MY/87.

requirements, reflecting its adaptability to Malaysia's evolving economic landscape.⁴⁰

Human capital development was another cornerstone of the agreement. Behn Meyer committed to training employees and facilitating management education, aligning with national objectives for skill development and employment opportunities.⁴¹ This initiative highlighted the venture's dual focus on commercial success and societal contributions.

A pivotal expansion occurred in 1980 when Behn Meyer incorporated Felda into its existing joint venture, leading to the establishment of Felda Pertanian Meyer Sdn. Bhd. (FPM).⁴² With a paid-up capital of M\$8.0 million,⁴³ Felda acquired a 40% equity stake, while Behn Meyer and KPM Niaga each retained 30%.⁴⁴ FPM specialized in manufacturing fertilizers for Felda settlers and other agricultural producers, contributing to rural development and reducing ethnic economic disparities. This initiative reinforced Behn Meyer's alignment with Malaysia's NEP by fostering smallholder productivity and promoting equitable economic participation. Overall, the case of FPM demonstrates Behn Meyer's innovative and compliant approach to postcolonial economic frameworks. By balancing flexibility, local collaboration, and long-term strategic planning, the company not only navigated challenges but also advanced Malaysia's economic and social development goals, reinforcing its role as a resilient and adaptive player in the region.

Behn Meyer initially approached the NEP with skepticism, adopting a cautious "wait-and-see" stance and engaging with its regulations at only a minimal level. The policy's emphasis on local equity ownership and executive participation created uncertainties, making firms wary of their long-term prospects. However, over time, Behn Meyer not only complied with government regulations but also embraced strategic partnerships, demonstrating a commitment to Malaysia's economic development. As regulatory enforcement softened, the NEP provided stability that allowed the firm to consolidate its position, leveraging its adaptability to strengthen its foothold. Rather than being constrained by economic nationalism, Behn Meyer turned the NEP from a perceived obstacle into an opportunity, using its entrepreneurial acumen to diversify operations and reinforce its market

40 Letter from BM Managing Director in Singapore to Secretariat Hamburg, 10.9.1975, in: BMA_BM&C MY/87)

41 26.8.1975, letter from Director of Behn Meyer & Co (M) to KPM Niaga, re: Pertanian Meyer Majubumi Sdn. Bhd., in: BMA_BM&C MY/87).

42 15.2.1980, letter to Dr. Agoes Salim, Chairman and Managing Director, Bank Pertanian Malaysia, in BMA_BM&C MY/87.

43 Staff Appraisal Report Malaysia, FELDA Palm Oil Mills Project, 10 Feb. 1985, Report Number 5324 MA. The World Bank.

44 "String of success now another first...". The Straits Times, 7 Sept. 1972, 18.

position. This trajectory highlights how foreign firms navigating post-colonial economic restructuring were not merely passive recipients of state policies but active agents in shaping their own longevity within shifting regulatory environments.

Case Study: Establishment of an Educational Trust Fund – The Behn Meyer Foundation

As mentioned before, the NEP mandated an ownership balance of 30% foreign, 40% Bumiputra, and 30% other Malaysian communities. The establishment of the Behn Meyer Foundation demonstrates how Behn Meyer navigated these requirements through meticulous planning, legal consultations, and innovative strategies, ensuring compliance while retaining operational control and minimizing tax liabilities.

In the aftermath of the NEP, AOM, which did not meet the mandated ownership balance, explored how to best fulfill the obligation for restructuring. Behn Meyer's journey toward compliance began with extensive consultations with prominent law firms in Kuala Lumpur and Singapore, the Chinese English firm Skrine & Co. (founded in 1963), Allen & Gledhill, which started as a colonial partnership in Singapore in 1902, and Duncan C. Fraser & Co. Sdn. Bhd. – opened in 1977 as a branch of an established London-based actuarial firm. From the correspondence, it becomes evident that these firms were consulting many businesses facing the NEP and that they had an important role as brokers of specialized legal knowledge that was vital to business operations, especially for foreign firms, during this period in Malaysia. These consultations explored viable restructuring models and soon centered around the establishment of a trust fund to hold a 10% stake in Behn Meyer & Co. (M). The trust fund would pay out the profits from these shares to selected employees of the firm, thereby contributing to the Malaysianization quota.⁴⁵ The two main objectives were to ensure government acceptance of the restructuring model and, at the same time, to minimize relinquishment of control to employees, shareholders, or trustees. Additional challenges included avoiding tax liabilities in both Germany and Malaysia from share transfers from AOM to the trust fund and in retaining the “Behn Meyer” name for entities majority-owned by the Hamburg parent company.

A solution that seemed to resolve all these challenges was the creation of an educational trust fund, formalized in a trust deed signed on November 13, 1987, and announced in the *Warta News* in July–September 1988.⁴⁶

45 Correspondence in: “BMA_BM&C MY/92”.

46 *Warta Behn Meyer*, July–September 1988.

This fund aimed to finance the education of employees' children, with a preference for Malay/Bumiputra applicants. The intention of the fund was explained to the management in an internal memo and the careful wording is exemplary for the strategic navigation of policy compliance: "to provide education to deserving children of deserving employees and to give the initiation into the German language and background. While some of the students might later take up employment with Behn Meyer, it is not the intention of this scheme to specifically train people for employment in Behn Meyer companies. The scheme must be understood as a contribution towards the furthering of education in Malaysia."⁴⁷ While internally, it was suggested to follow eligibility criteria that preferred long-term employees (who had completed at least five years of service) and candidates with an interest in education in areas that were closely related to the business interests of Behn Meyer (agriculture, chemistry, engineering, computer applications and business administration), externally, the foundation fulfilled NEP directives because it contributed to educational opportunities and social mobility in Malaysia. The scholarship program supported students across diverse disciplines and included a German language and culture component, broadening participants' horizons and preparing them for potential roles within Behn Meyer or the global marketplace.⁴⁸

Malaysianization and Human Capital

In 1970, the Malaysian International Chambers of Commerce raised concerns about the shortage of Bumiputera professionals with the technical expertise required for roles in foreign companies.⁴⁹ In response, Behn Meyer launched a specialized Bumiputera training program in 1975, targeting graduates of Institut Teknologi MARA, an institution dedicated to educating Bumiputeras.⁵⁰ While top positions—such as directors, consultants, and product managers—remained predominantly occupied by German professionals, mid-level executive roles increasingly included individuals of Chinese descent from the 1970s onward.⁵¹ Malays were primarily appointed to administrative roles, reflecting broader socio-economic patterns shaped by British colonial policies.⁵²

47 Office Memorandum, 10.11.1988, in: BMA_BM&C MY/90

48 Correspondence, Trust Deed and announcement, in: BMA_BM&C MY/90.

49 The Malaysian International Chambers of Commerce, Malaysianization Policy and Procedures, 16 May 1970, BMA_BM&C MY/6-78 and BMA_BM&C MY/7.

50 Speech by Dr. Dieter Lorenz-Meyer, Hamburg, 25 October 1991. BMA_NACHLÄSSE Dieter Lorenz-Meyer/1.

51 Warta Behn Meyer, 1977, 8; *Ibid.*, 1980, 11; *Ibid.*, 1988, 3.

52 Warta Behn Meyer, 1980, 11.

During the colonial era, rural Malays were largely confined to occupations such as rice farming, fishing, and manual labor, while urban areas saw greater participation from Chinese communities, who had better access to English education.⁵³ German merchants, unlike their British counterparts, were not predominantly guided by a cultural imperialist agenda; instead they fostered mutually beneficial relationships with Chinese traders by offering credit, enabling German goods to penetrate Malaysia's hinterland. This allowed German businesses like Behn Meyer to integrate more effectively into local economic networks.⁵⁴

This trend underscores several critical factors that shaped Behn Meyer's adaptive strategies in postcolonial Malaysia. Firstly, it reflects the perceived scarcity of qualified Malay candidates for mid-level positions, prompting the Malaysian government to initiate scholarship programs aimed at sending Malays abroad for professional training. These efforts sought to cultivate a pool of skilled Bumiputera professionals, addressing systemic imbalances inherited from colonial-era policies. Secondly, it highlights a preference among foreign multinationals, including Behn Meyer, to favor non-Bumiputeras for senior and mid-level roles. This preference may stem from perceptions of performance excellence among individuals of Chinese descent, as well as a tendency among Bumiputeras to pursue careers in government, potentially narrowing the pool of qualified candidates for private-sector leadership roles.

To address these challenges, Behn Meyer implemented a strategic approach to human capital development at both local and international levels. The company provided domestic training for its executives and staff while also facilitating overseas internships with key organizations in Germany, the Netherlands, the United States, and other European countries.⁵⁵ The participation of Malay executives in these training programs received coverage in mainstream newspapers, underscoring the initiative's positive reception and alignment with national development objectives.⁵⁶ For domestic training programs, Behn Meyer brought in experts from major German corporations, ensuring employees remained abreast of the latest industry trends and technologies.⁵⁷ This strategy not only enhanced the firm's operational capabilities but also fostered strong relationships with

53 Martin Rudner, "Agricultural policy and peasant social transformation in late colonial Malaya," *Issues in Malaysian Development, Southeast Asian Publications Series 3* (1979), 58.

54 Shakila Yacob, "Trans-Generational Renewal as Managerial Succession: The Behn Meyer Story (1840-2000)." *Business History* 57, no. 7 (2012): 1166-1185.

55 Warta Behn Meyer, October 1974.

56 3 Eksekutif jalani latihan di Behn Meyer, *Utusan Malaysia*, April 29, 1978; see also, *Business Times*, October 11, 1979.

57 Warta Behn Meyer, October 1974.

other German companies, facilitating knowledge exchange, collaborative ventures, and broader business synergies.

Behn Meyer's commitment to local capacity building extended beyond its own operations. Together with its German partners, the company contributed significantly to nationwide development projects by prioritizing local labor over expatriate hires. For instance, Ed Zueblin AG, represented in Malaysia by Behn Meyer, employed just four expatriates compared to 1,050 Malaysians for its North Port project in Port Klang. According to Jurowich, senior director of Ed Zueblin AG, "[...] local people should be given opportunities to participate in development projects so that they can have a greater sense of pride when jobs are completed."⁵⁸ This approach aligned with broader national objectives of economic empowerment and social integration, reinforcing Behn Meyer's role as a facilitator of post-colonial development.

These initiatives were pursued not merely for compliance but as a strategic means to protect the company's self-interest while maintaining control during and after restructuring exercises. By investing in its workforce, Behn Meyer constructed a robust and adaptable organization capable of navigating the risks and uncertainties of the postcolonial landscape. Behn Meyer's emphasis on training and development exemplifies how foreign firms can balance compliance with indigenization policies while fostering long-term sustainability, offering broader insights into business adaptability in postcolonial environments.

Business and Versatility

Behn Meyer's versatility has been a defining feature of its long-standing presence in Malaysia and Southeast Asia, enabling it to adapt to shifting business environments and overcome significant challenges. From competing with British first movers during the colonial era to managing risks amid the World Wars and interwar years, the company exhibited resilience through strategic diversification and strong ties with German principals. These relationships enabled Behn Meyer to access new markets and capitalize on emerging opportunities while remaining attuned to the shifting demands of the Malaysian and Southeast Asian economies. Importantly, Germany has historically regarded Malaysia as a relatively developed country and, as a result, has not extended soft loans or grants. However, German experts have been seconded to government and semi-government institutions, facilitating technical expertise and knowledge transfer.⁵⁹

58 Ibid.; see also, "German firm looking for local partner," *Business Times*, 10 September 1979.

59 "Malaysia: Waiting for Better Economic Ties." *Insight*, October 1979, 36.

This adaptability was further evident in its cautious approach to re-establishing operations in Malaysia during the 1950s. Drawing on insights from its global presence, including experiences with nationalization and indigenization policies in countries like India, Behn Meyer strategically navigated similar regulations in Malaysia. By forming partnerships with local businesses and stakeholders, the company mitigated risks while aligning with national development objectives. Its focus on strategic collaborations underscored a security-oriented mindset, prioritizing stability and long-term sustainability over high-risk ventures.⁶⁰

A cornerstone of Behn Meyer's success was its focus on recruiting and training local employees, providing valuable insights into market preferences and cultural dynamics. This strengthened the company's ability to navigate the region's political and economic complexities while fostering trust and building enduring relationships. By investing in a skilled, diverse workforce, Behn Meyer ensured adaptability to changing market conditions and aligned with national goals like Bumiputera empowerment, all while protecting its core interests. Behn Meyer's versatility stemmed from its ability to innovate and adapt in response to barriers and opportunities. Its long-standing regional presence, combined with strategic insights, local knowledge, and a commitment to fostering local talent, enabled the company to thrive amidst uncertainty. This case demonstrates how flexibility, collaboration, and investment in people can serve as key pillars of resilience, offering valuable lessons for businesses operating in postcolonial and rapidly evolving environments.

Concluding Remarks

This chapter examines how Behn Meyer, in response to the risks presented by political shifts in Malaysia after independence, opted for a strategic approach that emphasized compliance and proactive measures. Faced with regulatory restructuring, the company sought to maintain operational control while aligning with national development objectives. This approach underscores a security-oriented mindset during periods of uncertainty, where the emphasis is placed on leveraging and enhancing traditional practices of engaging locally. By strategically fortifying these traditions, Behn Meyer sought to create a balance between risk management and stabilizing their presence in the market. This strategy also raises questions about the extent to which such measures were driven by genuine commitment to local priorities versus pragmatic self-preservation.

60 Christina Lubinski, *Navigating Nationalism in Global Enterprise: A Century of Indo-German Business Relations* (Cambridge University Press, 2022).

The analysis highlights that German firms like Behn Meyer, operating without the support of imperial structures, demonstrated a distinct resilience compared to their colonial counterparts. By prioritizing local networks and interests over alignment with colonial agendas, these firms were better positioned to adapt to the evolving postcolonial landscape. Yet, this approach was not without limitations. While it facilitated compliance with indigenization policies, it also underscored the constrained agency of foreign firms in navigating state-led economic nationalism, often requiring concessions that diluted long-term strategic autonomy.

Ultimately, Behn Meyer's experience illustrates the complex interplay between security-focused strategies and the imperatives of local engagement. While this blend enabled the firm to mitigate risks associated with political and economic volatility, it also reflected the broader constraints faced by foreign enterprises in balancing compliance with sustainability. The case of Behn Meyer thus offers critical insights into the dual-edged nature of adaptation in postcolonial contexts, where survival often necessitates a recalibration of priorities, even at the cost of diminished control or influence.

Archival Material

Behn Meyer Corporate Archives
British National Archives

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6 Struggling for the Release of German Enemy Property in India (1953–1963)

Amit Das Gupta

Introduction

Twice within just 25 years, German property in British India was confiscated due to the two world wars. Twice, it took German companies over a decade to resume business in South Asia. Following the Treaty of Versailles of 1919, Germany was banned from global markets for five years. Restoring normal trade required negotiations among European powers, particularly with the United Kingdom as the colonial power in South Asia. The situation after World War II, on the contrary, was fundamentally different. By 1948, external powers were allowed to conclude trade agreements with German occupation zones, and independent India was among the first to do so. When the Federal Republic of Germany was founded in 1949, its government had to engage with an entirely new political entity – India under its charismatic Prime Minister Jawaharlal Nehru, not just a leader for his own people but a figure of hope for all those seeking an end to colonization.

The Nehru government sought to establish economic ties with West Germany for mainly two reasons. First, “made in Germany” enjoyed a solid reputation in South Asia. The door opener had been Siemens, establishing the telegraph line connecting London to Calcutta between 1867 and 1870, reducing message delivery times from weeks to mere hours.¹ Thereafter, German companies had flooded the lucrative Indian market with electrical, chemical and pharmaceutical products, as well as everyday “bazaar” goods like cutlery. Before August 1914, they had become the main competitor to British companies. After a decade without business contacts due to the Great War and its aftermath, German firms re-entered British India with even greater strength. When the Third Reich attacked Poland in September 1939, all their assets were placed under the Custodian of Enemy Property.

1 Werner Feldenkirchen, *Siemens: Von der Werkstatt zum Weltunternehmen* (Piper, 2003), 46–50; Christina Lubinski, “Liability of Foreignness in Historical Context: German Business in Preindependence India (1880–1940)”, *Enterprise & Society* 15 no. 4 (1998): 729.

The image of German products yet remained untarnished, as non-German companies successfully continued to market the same issues produced under license.²

The second reason for the newly independent India to seek close cooperation with postwar Germany was the imperative that political self-rule (*swaraj*) would not be completed without far-reaching economic self-reliance (*swadeshi*).³ For this very reason, already during the interwar period, Indian nationalists had supported trade with Germany, limiting British economic influence on the subcontinent. Nehruvian India aimed to break the colonial pattern of serving as both a supplier of raw materials and a market for European goods. This goal could only be achieved by partnering with technologically advanced nations that were either unwilling or, even better, unable to attach any political strings. Germany fitted this description perfectly. With initially no and later limited sovereignty and no political ambitions in Asia, German economic collaboration seemed ideal. Moreover, German experts, many of whom were no more or not yet again employed in bombed-out postwar Germany, were in high demand abroad, and trade agreements with India offered an opportunity to attract them.

Despite this favourable context, the Government of India (GoI), after a number of benign gestures proved headstrong regarding the release of German enemy property. Political and economic issues became so entangled that it took a full decade from the first informal discussions to a final solution. India's foreign exchange crisis from 1956/57 exacerbated the situation, with Bonn leveraging aid to push for the release of German assets. By then, most German companies had adopted a largely observational stance. Many had lost interest in the seized assets as their Indian operations were flourishing. Some, though, had valid reasons to continue pushing for their release. The Federal Government backed their demands as a matter of principle, as it was crucial for West Germany's credibility—not only with the German public but also internationally. A recipient of substantial German aid could not reasonably withhold assets seized during the war, especially given their relatively small value. Moreover, the Federal Republic of Germany (FRG) sought to normalize its foreign relations, aiming to become an equal partner on the global stage. Eliminating any discrimination against German businesses was essential, and aid-receiving developing countries were expected to lead by example. The German focus on political issues was mirrored by the attitude of some Indian ministries. What should

2 For the engagement of German business in colonial India see Christina Lubinski, *Navigating Nationalism in global Enterprise: A Century of Indo-German Business Relations* (Cambridge University Press, 2023).

3 Manu Goswami, "From Swadeshi to Swaraj: Nation, Economy, Territory in Colonial South Asia, 1870 to 1907," *Comparative Studies in Society and History* 40, no. 4 (1998): 609–636.

have been a straightforward financial issue evolved into a politically charged matter. After two successive partial solutions, all assets were finally released in 1965.

This chapter examines the return of German companies to India after World War II, in connection with the release of enemy property. For both economic and financial reasons, India developed into one of the most important overseas markets for German business. The country was believed crucial for the continuation of the international isolation of the German Democratic Republic, the most promising market outside Europe and North America, and the very laboratory for development cooperation.⁴ The focus is on two electrical companies, Siemens and AEG Telefunken. Next to pharmaceutical companies, they had played a significant role before and would do so again. Their postwar trajectories diverged significantly. Siemens' assets were seized at the outbreak of World War II, while AEG managed a last-minute transfer of theirs to foreign nationals. After 1945, however, this maneuver proved a disadvantage for AEG, especially as the company chose to close its India branch. In contrast, the Siemens India branch grew to become one of the company's largest overseas operations. Thus, using the released assets for further investment in India, as permitted from late 1958, aligned perfectly with Siemens' strategy. AEG, by then limited to exports without a local presence, focused on extracting its funds from India—a goal it achieved only in 1965.

This chapter shows how German businesses began their return to India even before the Federal Republic of Germany (FRG) took shape, thus without any governmental backing. The Indian government welcomed their renewed engagement as helpful for the planned rapid industrialisation. Therefore, this market was seen as one of opportunities, not of risks. This changed only with the Indian financial crisis, beginning in 1956, when Delhi warned that it might cancel large-scale orders if not helped out by Western financial aid. By then, however, Bonn provided export guarantees, wherefore the risk was mostly on the government side. The struggle for the release of enemy property was part of efforts to create an environment in which German businesses enjoyed legal security and were treated on an equal footing with other foreign competitors.

As noted, the debate surrounding the release of German enemy property quickly shifted from a financial and economic issue to a predominantly

4 Amit Das Gupta, *Handel, Hilfe, Hallstein-Doktrin: Die bundesdeutsche Südasienspolitik unter Adenauer und Erhard, 1949-1966*, (Matthiesen, 2004); *Ibid.*, "Development by Consortia: International Donors and the Development of India, Pakistan, Indonesia and Turkey," *Comparativ* 19, no. 4 (2009): 105; Julian Faust, *Spannungsfelder der Internationalisierung: Deutsche Unternehmen und Außenwirtschaftspolitik in Indien von 1947 bis zum Ende der 1970er Jahre* (Nomos, 2021), 79.

political one, raising questions and involving entities largely unrelated to the assets themselves. Consequently, apart from the archives of AEG and Siemens, this chapter also considers archival materials from German federal ministries, the International Bank for Reconstruction and Development (World Bank), and Indian documentation available at the National Archives in Delhi and the Nehru Memorial Museum & Library.

Confiscation and Restart in India

On September 1, 1939, the Third Reich invaded Poland, prompting the UK to declare war on Germany. Shortly after, the Viceroy of British India, Lord Linlithgow, followed suit. By mid-October, German-owned businesses in South Asia had been sequestered, with some initially continuing to operate under the guise of ownership by individuals of other nationalities. By October 1940, however, all such companies had come under the control of the Custodian of Enemy Property.⁵ While their German employees were interned for the remainder of the war, others, like the Jewish-Indian engineer David Nissim Haskell, continued to work in the colony.⁶ The German assets counted Rs. 29.6 million (DM 26.1 million).⁷

Following the Third Reich's capitulation in May 1945, power shifted to the Allied victors, who divided Germany and Berlin into four occupation zones each. Without any German representatives participating, the treatment of confiscated assets was regulated in the Agreement on Reparation from Germany, on the Establishment of an Interallied Reparation Agency and on the Restitution of Monetary Gold, concluded in Paris on January 14, 1946. Article 6 ruled that no signatory would return German assets.⁸

Mostly for securing India's share in reparations, a British Indian Military Mission was established in March 1946 in the British sector of Berlin, staffed primarily by British officers. Despite its name, the mission's focus was economic rather than military; its tasks included employing German experts. When India gained independence in August 1947, it inherited the mission, subsequently posting Indian military personnel. The mission's shift in focus became more pronounced when a civilian was appointed as head of

5 Lubinski, *Navigating*, 165–167. For a report on Siemens see *Siemens Archives (SiA)*, 58 Li 156. Report, 5 July 1940, Rottenbücher.

6 Lubinski, *Navigating*, 165–167. For a report on Siemens see *Siemens Archives (SiA)*, 11 Bauer Lc 107. Note, 23 August 1949, Bauer.

7 *Wirtschaftsnachrichten*, 25 November 1959.

8 *Final Act of the Paris Conference on Reparation* (Paris 21st December 1945), London: His Majesty's Stationary Office, 1946, 1–18.

the mission in February 1948, further emphasizing its economic and diplomatic character.⁹

With India's independence and the establishment of the mission in Berlin, efforts to re-establish business ties and forge new partnerships began almost immediately. On December 17, 1947, representatives from Birla, a major South Asian business house, met with counterparts from Siemens in Nürnberg, located in the American occupation zone. In typical fashion, Birla's interests were presented by a German, Director Mailänder. India was aiming for industrialization across various sectors, and Birla, among others, considered setting up an electrotechnical division to manufacture smaller motors, transformers, and refrigerators. The company sought to leverage foreign expertise, as in the past, and requested Siemens' assistance in the form of technical documentation, advice on factory setup, and experienced management. In return, Birla offered the prospect of licensed production or joint ventures. As India would not be capable to manufacture large generators and such for many years, those would be bought from Siemens. Director Bauer, representing Siemens, declined the proposal, citing uncertainties about Germany's industrial capacity in the near future. Additionally, Siemens resisted the Indian trend toward self-sufficiency, which they viewed as detrimental to German exports by undermining foreign demand.¹⁰

This did not prevent the GoI from signing the first ever trade agreement by a non-European country with the Joint Import Export Agency of the joint American and British occupation zones on July 28, 1948. This was followed by a similar agreement in July 1949, with the newly established Federal Republic of Germany (FRG) as the other signatory. Although the agreements fell significantly short of the anticipated trade volume, the Head of the Military Mission, Khub Chand, in a conversation with Federal Chancellor Konrad Adenauer described the two countries as ideal partners: India needed to industrialize, while the FRG needed to export.¹¹ Bonn responded four months later by sending its first trade delegation to India in November 1950. On this occasion, the influential Secretary General of the Ministry of External Affairs (MEA), Girja Shankar Bajpai, reiterated the interest in economic cooperation.¹² The general desire for good relations was expressed by the formal termination of the state of war at the earliest

9 Amit Das Gupta, "An uneasy Choice: India and the two Germanies 1949," in *International Recognition. A Historical and Political Perspective*, ed. Warren Pez  and Daniel E. Rojas (Mohr Siebeck, 2022), 181–182.

10 Lubinski, *Navigating*, 165–167. For a report on Siemens see *Siemens Archives (SiA)*, 11 Bauer Lc 107. Note, 17 December 1947, Bauer.

11 Das Gupta, *Handel*, 49.

12 *Politisches Archiv des Auswrtigen Amtes (PolAA)*, B11, 106. Note, 13 November 1950, Scherpenberg.

possible date, January 1, 1951. The GoI added that it would respect the 1946 Paris Agreement and therefore would not release enemy property. All agreements signed from January 1951 onward, however, would be treated as those concluded with any other country.¹³

Meanwhile, German businesses were actively pursuing opportunities. Until February 1952, capital exports and therefore direct investments abroad were forbidden.¹⁴ Siemens, nevertheless, began formulating a global market re-entry strategy as early as 1948. It aimed at reacquiring its confiscated branches and restore them under the Siemens name.¹⁵ In India this process proved particularly challenging. The very same year, Siemens, in partnership with Steinmüller Company and Associated Textile Engineers Bombay (ATE), supplied a power station in Bhopal with a 2,500 kW steam turbine. Further deals seemed promising, as a turbine factory had survived the war undamaged. Steinmüller pushed for closer cooperation with ATE, whose co-owner, Shyamlal H. Bhagwati, had been part of the Indian trade delegation to Germany in 1948 and had strong connections with government circles. Siemens, however, had encountered difficulties with Bhagwati around the Bhopal project and favoured Protos Engineering instead, which had employed some of Siemens' top engineers. After the war, many German nationals released from internment camps chose to remain in South Asia, and Protos benefited from their networks.¹⁶ Next to Haskell, among its employees was engineer Georg Wilhelm, who had sold and installed nearly all turbo-generating sets in the region during the interwar years.¹⁷ In 1950, Siemens decided that Protos would be its exclusive representative in India.¹⁸ Protos soon began representing various other German companies, too. In 1953, Siemens established a department within Protos, which was headed by former trusted employees such as Wilhelm and Haskell.¹⁹ Siemens Engineering & Manufacturing Co. of India, however, was not established until 1957.

Siemens was not yet capable of competing with U.S. companies on the field of large scale power stations, but did well regarding smaller projects.²⁰ It continued to expand its presence in India by supplying turbo-generating sets for sugar factories and electrical equipment for freight ships in 1951

13 Das Gupta, *Handel*, 51.

14 Faust, *Spannungsfelder*, 76.

15 Feldenkirchen, *Siemens*, 288.

16 Lubinski, *Navigating*, 190–191.

17 *SiA*, 11 Bauer Lc 116-2. Note, 15 August 1949, Plettner.

18 *SiA*, 68 Li 156. Circular Note no. 102, 6 April 1950.

19 *SiA*, 68 Li 156. Circular Note no. 22, 14 February 1953.

20 Susanne Hilger, *„Amerikanisierung“ deutscher Unternehmen: Wettbewerbsstrategien und Unternehmenspolitik bei Henkel, Siemens und Daimler-Benz (1945/49-1975)* (Franz Steiner Verlag, 2004), 59.

and 1952.²¹ In 1953, the GoI initiated discussions with Siemens regarding a project for the manufacture of heavy electrical equipment. Even though the company's managers did not favour the prospect of cooperating with American and British companies, they saw only advantages in concluding a multi-year consultancy agreement, expecting it to enhance sales and distribution within India. To Siemens' surprise, however, an Indian commission decided in the summer of 1955 against including the German company in the project²², which manifested as Indian Electrical Machinery and Equipment Industry the same year. The two-year episode, nevertheless, indicates Siemens' standing in India. Already by 1950, the board of directors had noted with great satisfaction that the company counted in the same league as its U.S.-American competitors.²³

Indo-German trade flourished in general.²⁴ A key milestone occurred on August 15, 1953, when a tentative agreement was reached to construct a state-owned steel plant in Rourkela.²⁵ The German partners in the project were Krupp and Demag, which soon brought in numerous other German companies, among them Siemens.²⁶ The construction responsibility rested with the Indian state-owned Hindustan Steel Limited. Recognizing the significance of this breakthrough for German business in India, the Federal Government provided a liquidity guarantee over DM 50 million for the firms involved. The agreement set an annual production target of one million tons of steel. Since Krupp and Demag were unable to supply all components of the plant on their own, they formed a consortium of German companies, including AEG and Siemens, to meet the requirements. In total, India imported material in the value of DM 850 million.²⁷

AEG continued exporting to India but, unlike Siemens, chose not to reopen its India branch. The reasons behind this decision were that AEG India Electric no longer held any property in the country and had ceased operations entirely.²⁸ By January 1950, the company was formally removed from the German commercial register.²⁹

21 *SiA*, 68 Li 156. Undated overview of major orders from India.

22 *SiA*, 22006. Letter to Director Heimann, 5 August 1955.

23 Hilger, "Amerikanisierung", 60.

24 Das Gupta, *Handel*, 81–84.

25 Corinna R. Unger, "Rourkela, ein 'Stahlwerk im Dschungel': Industrialisierung, Modernisierung und Entwicklungshilfe im Kontext von Dekolonisierung und Kaltem Krieg (1950–1970)," *Archiv für Sozialgeschichte* 48, 2008, 367–388.

26 Feldenkirchen, *Siemens*, 274.

27 Corinna R. Unger, *Entwicklungspfade in Indien: Eine internationale Geschichte 1947-1980* (Wallstein, 2015), 182–185.

28 *Technikmuseum Berlin (TMB)*, AEG-Papers, 999. Letter to District Court Charlottenburg, 21 October 1949.

29 *TMB*, AEG Papers, 999. Note, 27 March 1956.

German Enemy Property – a slow Start

In comparison to such sums, the economic miracle and the overall surge in West German exports, the value of property confiscated abroad during the world war seemed relatively insignificant. Telefunken estimated that German companies had lost around DM 8 billion in assets worldwide.³⁰ On October 30, 1945, Law No. 5 of the Allied Control Council had transferred the issue of enemy property to a special commission. The 1946 Paris Agreement had further stipulated that none of the signatories, including British India, were to return any seized assets to their German owners. Law no. 63 of the Allied High Commission of August 31, 1951, finally expropriated all German enemy property, except for that located in a few European countries and Turkey.³¹ As a result, the potential return of these assets became a matter of negotiation between the Federal Government and its trading partners.

Until February 1952, when German businesses were permitted to export capital, the confiscated assets might have been most beneficial in revitalizing their operations in India. Only in the spring of 1953, nevertheless, Bonn began exploring India's stance. While bilateral trade boomed, the political climate was not particularly favourable. After the Indian overtures between 1948 and 1951, growing mutual scepticism over each country's broader foreign policy path began to strain bilateral relations. While India embraced a policy of non-alignment, the FRG pursued close cooperation with the Western powers, ultimately leading to its integration into NATO. Additionally, India's approach to Germany was inconsistent. The GoI had enthusiastically pursued a tentative German proposal for a treaty of friendship and cooperation for nearly a year, only for the negotiations to come to a sudden halt in September 1952. Misunderstanding a remark of Prime Minister Jawaharlal Nehru, his cousin and Foreign Secretary Ratan Kumar Nehru claimed that Delhi would sign nothing that could be seen as accepting German partition. August Hilger van Scherpenberg, who led the German delegation, complained that the Indian government conveyed conflicting messages,³² while India's first ambassador to Bonn, Subimal Dutt, saw "an act of discourtesy."³³

Nevertheless, shortly thereafter, Dutt reported informal discussions on the issue of German assets. He recommended returning them, arguing

30 TMB, AEG Papers, 604. Note, 27 August 1951.

31 *Official Gazette of the Allied High Commission for Germany*, Baden-Baden, no. 44/1951, 1107 – 1110.

32 Amit Das Gupta, *Serving India: A political Biography of Subimal Dutt (1903-1992) - India's longest serving Foreign Secretary* (Manohar, 2017) 171–173.

33 *Nehru Memorial Museum & Library*, Dutt papers, diary 6. Entry, 24 January 1953.

that doing so would not disrupt the Indian economy and would be the right course politically. India had not demanded reparations in its peace treaty with Japan of April 1952, yet it had received some from Germany. Bilateral relations were “now of the friendliest” and the FRG trained Indian students and technicians.³⁴ At this stage, Bonn sought the legally required approval from the Western Powers for Indo-German negotiations on the matter.³⁵ Both London and Paris took a negative stand.³⁶ India’s High Commissioner to the UK, B.G. Kher, reported British unhappiness with Bonn’s methods and suspected that the Germans “are intending to use an agreement with India as a precedent for recovery of German assets in other countries.”³⁷

Dutt countered “that when it suits the British and the Americans to please the Germans, they ignore the previous inter-Allied agreements [...] and deal with matters in their way. I hope I am not being unjust, but I have the feeling that the British resistance is based on their unwillingness to see a rapprochement between us and the Germans. The British have already become jealous of the substantial orders which the Germans have secured in India.”

He further emphasized that Germany’s partners were, in any case, free to release the assets. Greece had already done so, while Switzerland had compensated German citizens without engaging in any government-level negotiations. India should follow their example under political considerations.³⁸

In April 1954, the West German embassy in Delhi initiated talks with the GoI. Counsellor Herbert Richter argued that “the continuing custody of German property does not seem to fit into the context of Indo-German relations.” Like Dutt, he pointed to Greece, followed by the U.S., and the treaty with Japan. Bonn’s request was modest: it sought the return of assets belonging to individuals and companies that had resided in British India before the war. The total value of these assets was unknown but considered insignificant.³⁹ For the time being, nevertheless, the talks remained inconsequential.

34 *National Archives of India (NAI)*, MEA, EII/53/2091/63. Letter to R.K. Nehru, 16 March 1953, Dutt.

35 *Ibid.* Letter to Joint Secretary Bhootalingam, Ministry for Commerce & Industry, 24 July 1953, Dutt.

36 *Ibid.* Letter to Dutt, 1 December 1953, R.K. Nehru.

37 *NAI*, MEA, EII/53/2091/63. Telegram to R.K. Nehru, 23 September 1953, Kher.

38 *Ibid.* Letter to R.K. Nehru, 13 January 1954, Dutt.

39 *Ibid.* Letter to Joint Secretary Harishwar Dayal, MEA, 21 April 1954, Richter.

For the companies involved, the situation varied significantly. Siemens had lost all its assets in 1939/40, while AEG had saved them by a smart maneuver right before the outbreak of the world war. On August 29, 1939, AEG Bombay was closed down. All assets, worth Rs. 300.000 (DM 1.250.000), had been transferred to AEG Electric Co. Ltd., which was a participation of three non-German individuals named E. Hammer, I.N. Marschall and Martha Bertsch. For the assurance to keep the money until the end of the war, they were promised a third of the individual sums.⁴⁰ By late 1956, however, only a small portion of the assets had been recovered: Mr. Baker, a British national held £ 24.000 (DM 281.000) on behalf of E. Hammer, but their retransfer faced years of delay due to British exchange control regulations. By mid-1959, Baker had successfully retrieved £ 18.490 from India, which he forwarded to Olympia Business Machines Co. Ltd. London.⁴¹ Olympia Wilhelmshaven, the German parent company, was a long-standing business partner of AEG since the early 20th century. While the money could not be transferred to Germany, Olympia Wilhelmshaven at least paid an annual interest of 6% on the amount beginning in 1957.⁴²

The second trustee, Swiss national Martha Bertsch, retained assets worth DM 325.000 in India, with which her husband, businessman Emil A. Bertsch, had bought shares in the colony. Following his death, his widow was allowed to transfer DM 150.00 out of India, but only to Switzerland.⁴³ Correspondence with AEG reveals an ongoing legal struggle involving Indian authorities and Swiss family members, seeking to secure their share of the inheritance.⁴⁴ By March 1958, her assets in India were worth Rs. 162.174 (DM 142.713).⁴⁵ The third trustee, I.N. Marshall, showed no willingness to return the assets under his control.⁴⁶ Meanwhile, the Indian Custodian recorded AEG assets over DM 253.045,⁴⁷ while the company itself claimed per-war assets amounting to Rs. 5.502.713 (DM 4.842.387).⁴⁸

40 *TMB*, AEG-Papers, 1311. Letter of Direction AEG Bombay, 3 September 1939.

41 *TMB*, AEG-Papers, 4272. Letter to Glossner, 29 May 1959, Ahlbrecht.

42 *TMB*, AEG Papers, 4272. Note, 18 September 1957, Ahlbrecht.

43 *TMB*, AEG Papers, 4272. Letter to Schneider-Filchner, AEG, 4 September 1956, Bertsch.

44 *TMB*, AEG Papers, 4272. Attachment to letter to Schneider-Filchner, 21 May 1959, Bertsch.

45 *TMB*, AEG Papers, 4272. Letter to Schneider-Filchner, AEG, 4 September 1956, Bertsch.

46 *TMB*, AEG-Papers, 4272. Letter to Director Joerges, 13 December 1956, Bank deutscher Länder.

47 *TMB*, AEG-Papers, 4272. Letter to AEG, 30 December 1958, Studiengesellschaft für privatrechtliche Auslandsinteressen e.V., H.E.A. Müller.

48 *TMB*, AEG-Papers, 4272.

Aid versus the Release of Enemy Property?

By 1956, India faced a significant foreign exchange crisis. The first Five-Year-Plan (1951-1956) had focused on increasing agricultural production. Then already, though, the GoI had signed major agreements for establishing three state-owned steel plants with assistance from West Germany, the UK and the USSR. These plants were meant as a major investment in the future of the country which – pushing for rapid industrialisation – aimed at substituting imports through domestic production.⁴⁹ Steel was crucial for Nehruvian development, as it was needed not only for railways but also for construction and manufacturing. While the general idea was sound, its implementation was not. India had entered independence with some assets in the UK accrued from war production. These, however, were insufficient to finance extensive machinery imports or bridge the long lead time ordering equipment and beginning production—let alone reaching profitability for the steel plants. Consequently, Delhi verged on bankruptcy and cancelled or delayed orders.⁵⁰ This setback not only slowed India’s development programme and the growth of the most promising democracy in the developing world, but also threatened profit margins for its primary trade partners. Besides British and German, Japanese and U.S.-American companies had enthusiastically entered this promising market of 350 million people.

For both political and economic reasons, India’s main trade partners took steps to address what initially appeared to be a short-term crisis. After each country individually provided loans and deferred payments, they combined their efforts in the summer of 1958 by forming what became known as the Aid India Consortium (AIC).⁵¹ On the one hand, the GoI recognized that, given the Cold War context, Western nations could not afford the failure of the very democratic experiment in development, especially as it was often compared to the People’s Republic of China. The prospect of “losing” India to communism—triggered by possible hunger revolts or social unrest—was a troubling scenario for Western capitals. This was a poker card Delhi knew to play well in negotiations with Western donors.

On the other hand, for countries like West Germany, the UK, Japan, and the United States, support for India came with expectations. These nations sought modifications to India’s ambitious development programme, particularly to better align with Western economic interests. Thus, although

49 Aditya Mukerjee, *Political Economy of Colonial and Post-Colonial India* (Primus Books, 2022), 501.

50 David C. Engerman, *The Price of Aid: The Economic Cold War in India*, (Harvard University Press), 163–173.

51 Das Gupta, “Development,” 98–100.

India had fought for self-rule for over two centuries, only a decade after independence, foreign powers were once again intervening in the country's economic and financial affairs. Some even openly pressed India to abandon its non-alignment stance and align more closely with the global West. In short, while aid was partly driven by self-interest—protecting exports, securing profits, stabilizing a democratic power, and enhancing the donor's image in India—it was also wielded as a bargaining tool. In return for aid, foreign powers sought specific concessions from India.

In the case of Bonn, a more obvious Indian concession was to stay away from the second German state, the socialist German Democratic Republic (GDR), which was controlled by the USSR. The democratically elected Federal Government claimed to be the sole legitimate representative of all German people, leading to the so-called Hallstein Doctrine in 1955: Under this doctrine, the FRG viewed any recognition of the GDR by a third country as a hostile act, warranting countermeasures up to the suspension of diplomatic relations. This led to the GDR's prolonged and humiliating international isolation deep into the 1960s, which ended only by the Basic Treaty between the two Germanies of December 1972.⁵² Until that point, non-aligned India had had little difficulty engaging with East Berlin, which had somewhat enhanced the latter's international standing.⁵³ In the hour of need, however, in the summer of 1957, Nehru ordered Vice-President Sarvepalli Radhakrishnan to reject a GDR invitation at the last moment and in a notably provocative manner.⁵⁴

This gesture, though, was accompanied by a payments agreement with East Germany signed shortly thereafter and announcements that India's financial situation no longer permitted the issuance of new import licences unless foreign governments provided loans. Hinting at Bonn, Nehru publicly warned of potential grave political consequences if West Germany maintained its restrictive stance. Internal discussions in Bonn were marked by differing opinions. Counsellor Richter once again took the lead, cautioning against the India's argument that it "*had* to be supported" to contain communism. American and British loans had yielded but limited political effects. Together with its allies, Bonn should convey to Indians that they would need to adjust their development plans and curb anti-Western rhetoric if they expected aid. While Richter acknowledged that German economic interests called for supporting India, he also saw an opportunity to secure concessions in return—one being the release of seized enemy

52 William Glenn Gray, *Germany's Cold War: The Global Campaign to isolate East Germany 1949-1969* (University of North Carolina Press, 2003), 48–49.

53 Das Gupta, *Serving*, 170–171, 241.

54 Das Gupta, *Handel*, 160.

property, which he estimated at DM 27 million.⁵⁵ From 1958 onward, Bonn made this a standard requirement for all developing countries seeking West German aid.⁵⁶

When the issue was raised with an Indian delegation in October 1957, nevertheless, Finance Secretary H.M. Patel, taken by surprise, brushed it off, pointing out that it was often unclear which of the two German states applicants resided in. At a press conference, Finance Minister T.T. Krishnamachari smartly expressed confidence that the Federal Government would not link loan provisions to India's non-recognition of the GDR.⁵⁷ When the AIC met for the first time from August 25 to 27 in Washington, D.C., Bonn showed itself supportive, nevertheless. It had already provided deferred payments amounting to USD 160 million for the Rourkela steel plant and now pledged another 40 million to meet India's immediate needs over the next six months. For the remainder of the second plan, Bonn promised a further 60 million.⁵⁸

Temporary Solution – Release of 75% for Investments in India in 1958

The issue of the seized assets gained momentum when Federal Minister of Economics Ludwig Erhard visited Delhi in October 1958 and engaged in extensive talks with Nehru. Positioning himself more as an economic expert than a government official, Erhard advised the prime minister on potential modifications to India's economic policy. While promising further German investments, he emphasized the importance of building mutual confidence—specifically, through the release of the seized assets, which he noted would ultimately be reinvested in India. Nehru, surprised to learn that the matter remained unresolved, assured Erhard of a swift solution.⁵⁹ Thereafter, Erhard's book "Wohlstand für alle",⁶⁰ where he claimed that Germans had to create and stabilise their markets abroad and tried to show a path for poorer countries to reach higher economic standards, was read by Krishnamachari and discussed with his aides.⁶¹ Other Indian officials, however, were reluctant to release the assets universally, preferring instead to

55 *Political Archives of the German Foreign Office (PolAA)*, 709–1286. Report, 23 September 1957, Richter. Emphasis in the original.

56 Ulrich Damm, *Die Bundesrepublik und die Entwicklungsländer: Versuch einer Darstellung der politischen Beziehungen der Bundesrepublik Deutschland zu den Entwicklungsländern unter besonderer Berücksichtigung der Entwicklungsbilfe* (Biehl, 1965).

57 Das Gupta, *Handel*, 165–167.

58 *World Bank Archives (WBA)*, 1844595. Proceedings, 27 August 1958.

59 *Bundesarchiv Koblenz (BAK)*, B2, 12625. Note, 13 October 1958.

60 Ludwig Erhard, *Wohlstand für alle*, (Econ, 1957).

61 Das Gupta, *Handel*, 175.

negotiate on a case-by-case basis. Otherwise, they held, India would need to clarify its undefined stance towards the GDR.⁶²

Die Welt reported on the promising discussions, highlighting that India would be the first Commonwealth country to release these assets.⁶³ German companies, the Indo-German Chamber of Trade of Commerce and other intermediaries quickly recognized the renewed opportunity, too. Indeed, India took a major step forward by releasing all assets up to Rs. 5,000. For assets exceeding this amount, the Custodian of Enemy Property issued interest-free loans covering 75% of the total sum. These loans had to be exclusively used within India for projects authorized by the GoI, with annual proof required to confirm their proper use. Repayment was deferred until at least five-and-a-half years, India deliberately avoiding specifying a due date. The remaining 25% of larger assets was retained to cover counterclaims, including lost cargo, pre-war claims, and compensation for war damages—a total value of Rs. 7.2 million (DM 6.3 million).

As early as November 1958, IG Farben and Siemens concluded identical agreements with the Custodian of Enemy Property which served as model contracts for other companies. Von Petersdorff, representing IG Farben, informed AEG that he had written to several federal ministries, advocating for the general release of the assets in exchange for aid.⁶⁴ In the meantime, the Custodian of Property Enemy compiled a list of German companies and their sequestered assets, calculating DM 250,000 for AEG India Electric Co.⁶⁵ Due to lost documentation, AEG itself was unable to provide its own calculation.⁶⁶

The debate over the seized assets gained further momentum due to decisions made by countries such as Pakistan. As the first among the signatories of the 1946 Paris Agreement, India's arch-enemy gave its general consent to release seized enemy property in mid-April 1959.⁶⁷ Although concrete steps had not been taken until late 1962,⁶⁸ the signal to the Indian rival was unmistakable. Turkey, another major recipient of West German aid, was promised further loans by August 1958 contingent upon the release of German assets.⁶⁹ It took ten months and considerable diplomatic pressure before the Turkish parliament approved the measure.⁷⁰

62 *BAK*, B6, 8647. Note, 2 December 1958, Klamser.

63 *Welt*, "Indien erwägt Vermögensrückgabe", 20 October 1958.

64 *TMB*, AEG-Papers, 4272. Letter to AEG, November 1958, von Petersdorff.

65 *TMB*, AEG-Papers, 4272. Brief, Studiengesellschaft für privatrechtliche Auslandsinteressen to AEG, 30 December 1958, Müller.

66 *TMB*, AEG-Papers, 4272. Letter, AEG to Indo-German Chamber of Trade and Commerce, 16 January 1959.

67 *PolAA*, 709, 1441. Note, 23 April 1959, Gnodtke.

68 *PolAA*, 709, 1448. Telegram, 6 November 1962, Trützschler.

69 *PolAA*, B26, 57. Note, 27 August 1958, Berger

70 *PolAA*, B26, 57. Note, 15 October 1959, Sachs.

Regarding India, the Federal Government reinforced its position by strongly hinting at the substantial flow of aid it provided, too. The FRG's participation in the AIC itself did not help, as even Bonn's key demand—that India refrain from further upgrading its relationship with the GDR—was not supported by other donor countries. The occasion of the second meeting of the AIC in mid-March 1959, nevertheless, was used for an informal exchange with B.K. Nehru, another cousin of the prime minister and India's chief negotiator on aid matters. His objection that India could not act without the consent of other signatories of the 1946 Paris Agreement was soon rendered irrelevant by the Pakistani decision a month later.⁷¹ Hans Henckel, leader of the FRG delegation to the AIC and a senior official in the Ministry of Economic Affairs, now pushed for a swift solution. Bonn should insist on linking aid with the assets to uphold its credibility. The two governments needed to finalize a loan of over USD 30 million as part of the pledge made at the India Consortium's first meeting, and India was in urgent need. B.K. Nehru should be informed that neither international nor Indian laws posed obstacles. Foreign investors required an environment of mutual trust.⁷²

Henckel's position received support from India's Ambassador in Bonn, Badruddin Tyabji, who, however, was unable to sway his superiors in Delhi.⁷³ Therefore, he was handed over a note from the Federal Government, stressing the relevance of German public opinion in determining further loans and investments by German firms in India.⁷⁴ Meanwhile, observing further developments, the German Foreign Office noted that India increased its counterclaims, discouraging some German firms from expanding their investments. Indian demands for war-damage compensation were considered unfounded as British India had not suffered from German warfare. The legal department, therefore, proposed transferring all assets to the West German embassy in Delhi, allowing an internal solution that would avoid further publicity on the matter.⁷⁵

This proposal was never implemented and legal questions remained. In the Indian parliament, friends of the GDR raised the question whether the 1946 Paris Agreement necessitated negotiations with East Berlin as well. A positive response would have made all Indo-FRG talks obsolete, as making the GoI lead official negotiations with a government it did not recognise was the very least Bonn could wish. The GoI's response—that the FRG alone had assumed all financial obligations of the Third Reich and

71 *PolAA*, 411, 139. Letter to Embassy Delhi, 14 May 1959, Gnodtke.

72 *PolAA*, 411, 139. Note, 12 June 1959, Henckel.

73 *PolAA*, 411, 139. Note, 7 July 1959, Berger.

74 *PolAA*, 411, 139. Note verbale, 20 July 1959, Scherpenberg.

75 *PolAA*, 709, 1250. Note, 12 August 1959, Berger.

thus the GDR would not be involved—was met with deep satisfaction in Bonn.⁷⁶ Following India's formal confirmation on November 24, 1959, of the release of 75% of the assets, Adenauer sent a personal telegram thanking Nehru,⁷⁷ even though the Indian prime minister did not definitely count among his political friends.⁷⁸

Final Solution

This, however, had not been the final chapter in the release of German assets yet. In December 1959, a high-ranking Indian official clarified to the FRG embassy that, while the settlement covered seized property belonging to German companies, individual owners could not yet be compensated due to India's challenging financial situation. German representatives suggested allowing these assets to be used for investments within India.⁷⁹ Indeed, the Government of India had already considered allowing individual owners to sell their assets to German companies investing in India.⁸⁰ On January 21, 1960, guidelines were issued permitting these funds to be used for purchasing Indian government bonds, equity interests, or investment loans for Indian companies. By late 1963, Henckel negotiated an agreement allowing these assets to also support Max Mueller Bhavans, as Germany's Goethe Institutes were named in India. The Federal Government further announced it would cease discussions on the remaining 25% of German assets. Within a week, on November 27, 1963, the Government of India responded by granting permission for any uninvested funds to be transferred abroad.⁸¹ This agreement in the form of an exchange of letters also included investment share protection, another long-standing demand from German companies.⁸²

The case of Martha Bertsch's assets, held on behalf of AEG, nevertheless, took considerably longer to resolve. The Reserve Bank of India imposed an annual transfer cap of Rs. 20,000 for foreign transfers. Moreover, after India's defeat in the 1962 border conflict with the People's Republic of China triggered a severe stock market crisis, Bertsch's advisors were reluctant to sell her remaining shares at a price lower than the original one.⁸³

76 *PolAA*, 709, 1250. Note, 14 September 1959, Gnodtke.

77 *PolAA*, 709, 1250. Telegram to Nehru, 1 December 1959, Adenauer.

78 Amit Das Gupta, "Divided Nations: India and Germany," in *India in the World since 1947: National and Transnational Perspectives (1947-1991)*, ed. Andreas Hilger and Corinna Unger Peter Lang, 2012, 309.

79 *PolAA*, 411, 139. Report, 2 December 1959, Melchers.

80 *TMB*, AEG, 4272. Note, 28 January 1959. Indo-German Chamber for Trade and Commerce.

81 *BAK*, B6, 23928. Note, 22 December 1964, Knapp.

82 *BAK*, B6, 23924. Telegram, 27 November 1963, Duckwitz.

83 *TMB*, AEG, 4272. Note, 5 April 1963, Schneider-Filchner.

Only in September 1965, the final sum of DM 547.000 could be transferred via Switzerland, AEG incurring losses due to Swiss income tax.⁸⁴

Conclusion

The decade-long and often challenging negotiations over the release of seized German assets coincided with a boom in German exports to India. Furthermore, from 1957, the Federal Government provided steadily increasing amounts of aid in order to stabilise the world's largest experiment in democratic development and to ensure a steady market for West German exports. Against the financial dimensions of both trade and aid, the issue of the assets appears irrelevant: By the summer of 1956, deferred payments over USD 160 million had been granted and financial aid over USD 100 million pledged for the remainder of the Second Five-Year Plan, ending in 1961. Against this stood claims to assets valued under USD 7 million. The efforts to secure their release, nevertheless, were more than harping on about principles. Large corporations like Siemens could have written off the losses, as the money was not essential for their rapid expansion in India. By late 1958, a year after Siemens had reestablished its Indian branch proper, it had already regained 75% of the assets for reinvestment in India anyway.

The situation was markedly different for AEG relying on individuals like Martha Bertsch, who, thanks to an AEG manoeuvre in August 1939, effectively became an asset manager for the company. Until 1965, Bertsch was only permitted to transfer modest amounts to her home country, Switzerland. While transferring other assets to the UK was somewhat easier, AEG was unable to move them further to West Germany. Instead, it had to invest them in the British branch of a German company, which paid AEG interests in return. AEG's primary challenge, beyond the decisions of 1939, was its choice not to reopen a branch in India, which would have facilitated easier access to Bertsch's assets. The sums in question, nevertheless, were not large enough to pose a risk to AEG's financial stability.

The lessons for German businesses were diverse. First, a developing country that to some extent came to rely on German aid was still able to compel German companies to establish branches abroad—or better yet, form joint ventures—if they wished to make productive use of their confiscated assets. By doing so, the Indian government ensured both a continuous transfer of know-how and a reduced need for foreign exchange. Second, this did not hinder the prospects of German businesses in South Asia, which had already been thriving years before the assets were eventually

84 *TMB*, AEG, 4272. Note, 1 September 1959, Ahlbrecht.

released. In Siemens' case, there was no need to entice the company into investing in one of the world's most promising markets. India was a business opportunity, not a risk.

Third, the real risks for German companies did not stem from the long delay in the release of assets but rather from India's foreign exchange crisis, which began in 1956. This crisis limited India's ability to place foreign orders until sufficient domestic production capacities had been developed. Fourth, in both cases, German businesses could fully rely on the Federal Government to safeguard their investments. From 1952 onwards, German firms did not have to engage in individual negotiations over their confiscated assets, as their interests were effectively represented by the government. In general, their business activities were secured through export guarantees. The decisive breakthrough was negotiated by none other than Minister for Economic Affairs Ludwig Erhard. The Federal Government also intervened when an Indian bankruptcy threatened to jeopardize existing contracts, let alone the conclusion of new ones. Siemens benefited early on by aligning its strategy with the goals of both the Nehru government and Erhard, whereas AEG's decision to stay out of South Asia while awaiting the release of its assets proved unsuccessful.

The ultimate release of the assets carried mostly symbolic importance. Following Pakistan and Turkey, India granted the FRG status as an equal partner by acknowledging the claims of German companies and individuals. This marked an important step in West Germany's international emancipation. With its economic strength, the FRG achieved one of its early legal breakthroughs with a developing country that urgently needed German aid. While restrictions on German sovereignty persisted until the end of the Cold War, they soon ceased to impact Bonn's relations with developing nations. The case of India here is relevant not only for being among the first to release the assets. India played a leading role in the developing world, providing crucial support for the Hallstein Doctrine,⁸⁵ was rightly seen as the very laboratory for development politics worldwide and one of the most relevant overseas markets for exporters in Europe and North America. Decisions taken in Delhi had repercussions elsewhere. Thus, while the release of German enemy property may represent only a minor episode for German business in India, it marked a significant political breakthrough for the FRG in its journey toward full international autonomy. This act of recognition by India symbolized a step forward in the FRG's political emancipation on the world stage, reinforcing its emerging status as a respected and equal partner among nations.

85 Amit Das Gupta, "India and Ostpolitik," in *Ostpolitik, 1969-1974: European and Global Responses*, ed. Carole Fink and Bernd Schaefer (Cambridge University Press, 2009), 179-181.

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PART III

**Business Strategies
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7 Cooperation and Catching up

Telefunken's Relationships with Japanese Companies (1920s–1970s)

Florian Staffel

Introduction

On May 8, 1963, the board of the German electrical company Telefunken met to discuss relations with Japanese companies.¹ Chairman Felix Herriger surprised his fellow board members. He advanced the position that Japanese companies had “caught up with and in some cases overtaken” Telefunken.² He therefore proposed to reconsider the orientation of business relations with Japanese companies in order to adapt them to the expected competitive conditions. Specifically, he demanded cooperation in the development of products and the supply of components to benefit technologically and commercially. The observation and request were met with astonishment by many other board members, because they were shaped by traditional perceptions or experiences with inferior Japanese products since the 1920s and blinded by their own ‘golden age’ of high growth. These beliefs were common among the European society at that time.³ So it was not until 1970 that such cooperation was contractually implemented with Hitachi. By then, Herriger’s Cassandra prediction had come true and Japanese consumer electronics companies had become world market leaders.⁴

This introductory scenario outlines the subject of the study. It reconstructs the relationships between Telefunken and Japanese companies and analyzes specifically how Telefunken shaped these relationships from the beginning in the 1920s to the readjustment around 1970 in response to the increasing competitiveness of Japanese companies. The study argues that throughout this period, Telefunken’s central security strategy with regard to the challenge of growing Japanese competitiveness was cooperation with

1 *Besprechung in Lindau, 8.5.1963*, in: AEG-TFK, Japan.

2 Translation by the author, original: eingeholt und teilweise überholt

3 Endymion Wilkinson, *Japan Versus the West: Image and Reality* (Penguin Books, 1991), 97–134.

4 Alfred Dupont Chandler, *Inventing the Electronic Century: The Epic Story of the Consumer Electronics and Computer Industries* (Harvard University Press, 2005).

Japanese companies. However, the intentions varied from control over the Japanese industry and profit maximization to technological support from Japanese firms, as indicated by the disagreements among the board of directors. Herriger's activities and expectations can both be seen as part of a continuum. The expectation of increasing Japanese competitiveness was a major factor for many managers of Telefunken during the period under investigation. This article will thus empirically demonstrate the importance of experiences and expectations for the development of security strategies.⁵

This research question will be examined on the basis of previously unknown sources from the AEG-Telefunken archive. It focuses on Telefunken's reactions. Consequently, the study is not a global history that takes equal account of the German and Japanese perspectives.⁶ Due to the lack of access to archives, Japanese sources could not be consulted. However, the Japanese perspective is reconstructed as far as possible from the point of view of the German sources.

This chapter accounts specifically for research on German-Japanese corporate relations. One of the leading experts, Akira Kudō, compares the state of research in the 20th century with "infancy".⁷ The period up to 1945 has been studied more comprehensively. There are studies on technology transfer, cartel practices and the importance of German companies and governments for Japan's industrialization.⁸ Research on the period after 1945 has focused primarily on the "golden age" from a comparative perspective. In this context, Americanization, partial intensification of competition and mutual learning played an important role.⁹ This study aims to overcome the strikingly "artificial" division created by the caesura of

5 On security strategies: Mark Jakob et al., eds., *Security and Insecurity in Business History: Case Studies in the Perception and Negotiation of Threats* (Nomos Verlagsgesellschaft, 2021); for economic history: Mark Jakob et al., "Erfahrung und Erwartung: Eine vernachlässigte wirtschaftshistorische Perspektive?", *Jahrbuch für Wirtschaftsgeschichte/Economic History Yearbook* 59, no. 2 (2018); for Theory: Jens Beckert, *Imagined Futures: Fictional Expectations and Capitalist Dynamics* (Harvard University Press, 2016).

6 Dominic Sachsenmaier, *Global Perspectives on Global History: Theories and Approaches in a Connected World* (Cambridge University Press, 2011).

7 Akira Kudō, *The Japanese and German Economies in the 20th and 21st Centuries: Business Relations in Historical Perspective* (Amsterdam University Press, 2018), 8.

8 Erich Pauer, ed., *Technologietransfer Deutschland - Japan: Von 1850 bis zur Gegenwart* (Iudicum-Verl., 1992); *Ibid.*, "Die wirtschaftlichen Beziehungen zwischen Japan und Deutschland 1900–1945," in *Deutschland - Japan: Historische Kontakte*, ed. Josef Kreiner (Bouvier, 1984); Akira Kudō, *Japanese-German business relations: Cooperation and Rivalry in the Inter-War Period* (Routledge, 1998).

9 Akira Kudō et al., eds., *German and Japanese Business in the Boom Years: Transforming American Management and Technology Models* (Routledge, 2004); Christian Kleinschmidt, *Der produktive Blick: Wahrnehmung amerikanischer und japanischer Management- und Produktionsmethoden durch deutsche Unternehmer 1950–1985* (Akad.-Verl., 2002); Pablo Díaz-Morlán and Miguel Sáez-García, "The European response to the Challenge of the Japanese Steel Industry (1950–1980)," *Business History* 58, no. 2 (2016).

1945 in order to reveal continuities. In addition, Telefunken's relations with Nihon Musen are examined as a "special case" because Telefunken had been involved in Japan through FDIs since the 1920s. So far, this has only been established for Siemens, whose early involvement has therefore been particularly emphasized.¹⁰

In a broader sense, this article attempts to extend the current state of research on the debate surrounding the Great Divergence and the related Great Convergence.¹¹ The Japanese economy, and in particular the consumer electronics and electrical industry, represented the most striking example of catch-up growth during this period under investigation.¹² In the scientific debate, the Japanese case study is underrepresented. Recently, Peer Vries and Penelope Francks have reduced this deficit.¹³ But in their studies, they also remain at the macroeconomic level, which is typical of the debate.¹⁴ In turn, the underlying business history perspective should supplement the findings with regard to the perception of and reaction to this process. In order to answer the questions and show the lines of continuity, this article examines the relationships chronologically before and after 1945.¹⁵

The initial situation at the beginning of the 20th century

Telefunken was established in 1903 as a joint venture between the leading German electrical companies Siemens & Halske and AEG.¹⁶ The company was engaged in wireless telegraphy for military equipment and civilian shipping.¹⁷ In the 1920s, Telefunken then became a leader in the field of radio broadcasting. Even before the First World War, a global network of

10 Kudō, *The Japanese and German Economies*, 79–83; Tōru Takenaka, *Siemens in Japan: Von der Landesöffnung bis zum Ersten Weltkrieg* (Steiner, 1996); Kudō, *Japanese-German business relations*, 165–217.

11 Kenneth Pomeranz, *The Great Divergence: China, Europe and the Making of the Modern World* (Princeton University Press, 2011).

12 Chandler, *Inventing*.

13 Peer Vries, *Averting a Great Divergence: State and Economy in Japan, 1868–1937* (Bloomsbury Academic, 2019); Penelope Francks, *Japan and the Great Divergence: A Short Guide* (Palgrave Macmillan, 2016).

14 Geoffrey Jones, "The Great Divergence and the Great Convergence," in *The Routledge Companion to the Makers of Global Business*, ed. Teresa da Silva Lopes et al. (Routledge, 2020).

15 In particular the explanations for the period after 1945 are based on my dissertation thesis, which will be published by De Gruyter in 2025. Florian Staffel, *Zwischen Konkurrenz und Kooperation: Die "Japanische Herausforderung" und die deutsche Unterhaltungsselektrotechnikindustrie* (DeGruyter, 2025).

16 In the following the short names of the companies are used. For company histories: Strunk, *Die AEG: Aufstieg und Niedergang einer Industriellegende* (Nicolai verlag, 1999); Wilfried Feldenkirchen, *Siemens: 1918–1945* (Piper, 1995).

17 Michael Friedewald, "Telefunken und der deutsche Schiffsfunk 1903–1914," *Zeitschrift für Unternehmensgeschichte* 46, no. 1 (2001).

radio stations was established, covering not only the German colonial territories but also large parts of South America, Australia and Russia. The first contacts with the Japanese company Hitachi also took place during this period before the First World War. This war also ended the rapprochement, as the German Empire and Japan found themselves on different sides of the war.¹⁸

The Hitachi electrical company emerged from a silver mining company in 1910. Due to its growth into one of the largest companies in Japan and its focus on the future industries of the time, it is seen in research and partly also by the contemporaries as a symbol of successful industrialization.¹⁹ Japanese industrialization began around 1880 and was the first outside Europe and North America.²⁰ The catch-up process has been reconstructed on the basis of various growth parameters and explanatory approaches like the leading role of small businesses, consumer demand, state institutions and support or technology imports. The parameters mentioned also applied to the electrical and consumer electronics industry. It was a fundamental part of the industrialization process since the turn of the century. The industry was technologically backward until the 1920s.²¹ Its subsequent boom was often dependent on American or European technology imports, as will be discussed in more detail.²² Both of Telefunken's parent companies were also involved in this development. Siemens was one of the few German companies that directly held a stake in a Japanese company, namely Fuji Electric. Consequently, the company also worked with technology provided by Siemens. AEG had only signed a representation agreement with the Okura company for Japan, so that patent issues and the distribution of technology licenses, for example, could be enforced.²³

European and American companies were seen as role models in Japan in some cases, not only in terms of technology but also in terms of their structures. This is illustrated by the example of Nihon Musen, which was to become Telefunken's long-standing partner. Nihon Musen was

18 In retrospect: *Vereinbarung zwischen Telefunken und Hitachi Limited, 17.2.1971*, in: AEG-TFK, *Japankonzept*. No details have been preserved.

19 Hidetatsu Satoh, "The Establishment of Hitachi, Ltd," *Japanese Research in Business History* 22 (2005).

20 Penelope Francks, *Japanese Economic Development: Theory and Practice* (Routledge, 2015), 9–15, 113–15; Vries, *Great Divergence*, 224.

21 Francks, *Japanese economic development*, 202.

22 Kyoji Fukao and Tokihiko Settsu, "Japan," in *The Cambridge Economic History of the Modern World*, ed. Stephen Broadberry and Kyoji Fukao (Cambridge University Press, 2021), 101–10; Izumi Okubo, "Competitive Advantage in the Japanese Record Industry Before WWII," *Keiei Shigaku (Japan Business History Review)* 49, no. 4 (2015); Kudō, *Japanese-German business relations*, 32.

23 Kudō, *The Japanese and German Economies*, 78–88.

initially established as an association of several entrepreneurs and engineers between 1915 and the early 1920s.²⁴ The founders of the company pursued the objective of developing a Japanese RCA (Radio Corporation of America). RCA was a joint-stock company of several American electronics manufacturers that dominated the American broadcasting market by manufacturing receivers and transmitters as well as a range of wireless communication devices.²⁵ The company secured worldwide influence for itself through its patent ownership, since, to some extent, the patents were essential for the construction of radios. The Japanese market for entertainment electronics was characterized by intense competition among many small companies.²⁶ The founding of Nihon Musen was intended to create synergies. In contrast to the United States, the Japanese Ministry of Communications prohibited such cooperation in 1925 and insisted on state administration to ensure state control over the radio network.

Expectation of a Japanese catch-up. Relationships with Nihon Musen 1920s–1945

Nihon Musen aimed not only to improve its competitive position in Japan by implementing American or European technology but also to catch up with these economic regions, thereby becoming competitive on the world market in the long term.²⁷ It is not documented in detail how the contract with Telefunken was concluded. It can be assumed that the connection was established through Baron Kihachiro Okura or his son, Baron Kishichiro Okura. The father founded the Zaibatsu Okura, whose subsidiary in turn represented AEG in Japan and held 67% of the shares in Nihon Musen.²⁸ Telefunken received 33% of Nihon Musen shares through the contract concluded in 1924.²⁹ In addition, in Article 4 of the contract, Telefunken granted Nihon Musen an exclusive license to use Telefunken's patents and know-how free of charge upon request in the field of wireless telegraphy and

24 Atsushi Hiramoto, "Failure of the Establishment of a Japanese Version of RCA: Characteristics of the Early Japanese Radio Apparatus Industry," *Keiei Shigaku (Japan Business History Review)* 34, no. 4 (2000).

25 Chandler, *Inventing*, 13–49.

26 Hiramoto, "Failure".

27 Here and below: Hiramoto, "Failure".

28 Seishi Nakamura, "The Okura Zaibatsu in Taisho and Early Showa Japan," *Keiei Shigaku (Japan Business History Review)* 15, no. 3 (1980).

A zaibatsu was a corporate conglomerate in Japan that included banks, trading companies and manufacturing companies: Andrew Gordon, *A Modern History of Japan* (Oxford University Press, 2009), 95–98.

29 *Telefunken-Okura & Co.*, 28.10.1929, in: AEG-TFK, *Beziehungen 1920er Jahre*. In 1942, the company changed its name to the internationally better-known Japan Radio Co.

telephony.³⁰ In return, Telefunken was guaranteed a dividend of between 6% and 8% of the revenues, and the contract also prohibited exports to markets where Telefunken was active.

Nihon Musen viewed the signing of the contract as a success.³¹ There was a clear appreciation for the quality of German wireless technology and radios. The asymmetrical design of the contract, which is evident, for example, from the export restrictions or the dividend, was typical.³² It can also be identified in the contracts of other Japanese electrical companies, in particular with the American companies Western Electric, General Electric or Westinghouse, but also in the contracts between Siemens and Fuji Electric. The Japanese companies accepted these conditions because they were dependent on technology transfer. The special feature of the contract between Telefunken and Nihon Musen was the conditions of the transfer. Nihon Musen, as specified in the contract, determined which technology was exchanged. Telefunken regretted and undermined this concession in practice, as will be shown later. However, Telefunken's decision to enter into this contract was a result of the chosen security strategy.

In the 1920s, Telefunken, like various other German, European and American companies, perceived the Japanese market and its companies as both a threat and an opportunity.³³ This was based on the expectation that the Japanese market and companies in the electrical and consumer electronics industry would grow massively.³⁴ On the one hand, they were seen as an economic challenge and menace in the domestic and export markets, in the tradition of the Yellow Peril.³⁵ On the other hand, the Japanese market promised sales opportunities. This ambivalence and insecurity can be seen as a typical perception pattern of the Great Convergence.³⁶ Like most German companies, Telefunken had lost its property and patent registrations abroad

30 *Diskussion der Vertragsdetails: Aktennotiz über eine Besprechung bei Herrn Dir. Schwab, 18.06.1935, Betr. Nihon Musen, Japan*, in: AEG-TFK, Verhandlungen mit Yamamoto.

31 Hiramoto, "Failure".

32 Francks, *Japanese economic development*, 203.

33 Vries, *Great Divergence*, 5; Kudō, *Japanese-German business relations*, 20.

34 In retrospect: Schreiben an das Reichskriegsministerium, Abwehrabteilung, Oberst Hinke, 12.07.1935, in: AEG-TFK, Verhandlungen mit Yamamoto.

35 Akira Iikura, "The 'Yellow Peril' and Its Influence in Japanese - German Relations," in *Japanese - German Relations, 1895 - 1945*, ed. Christian W. Spring and Rolf-Harald Wippich (Routledge, 2007). The buzzword emerged at the beginning of the 20th century in the wake of the Russo-Japanese War and the Boxer Rebellion. It characterized China and Japan as a challenge to the superiority of Europe and the United States. The image was heavily influenced by cultural and racial stereotypes.

36 Jürgen Osterhammel, "Der 'Aufstieg Asiens': Ideengeschichtliche Voraussetzungen heutiger Ungewissheit," in *Die Flughöhe der Adler: Historische Essays zur globalen Gegenwart*, ed. Jürgen Osterhammel (C.H. Beck, 2017). . .

during the First World War. The experience resulted in German companies investing little in Japan in the interwar period and instead relying more on exports.³⁷ Telefunken did not pursue this security strategy to minimize risk. Instead, Telefunken, like Siemens, chose to cooperate with Nihon Musen as a security strategy. The predominant intention was to cooperate in order to control, as can be demonstrated by four aspects.³⁸

Firstly, Telefunken diagnosed that only a partnership with a Japanese company would bring the opportunity to exert influence on the Japanese market, to exploit export opportunities and secure patent ownership. Secondly, Telefunken wanted to control the export behavior of the Japanese industry. Both intentions depended, thirdly, on the behavior of the other global market participants. British and U.S.-American companies also shared Telefunken's expectations. They therefore tried to expand into the Japanese market and establish corporate relationships. In many cases, they were able to continue the relationships that had existed before the First World War and had not been disrupted by it. Telefunken perceived this as a disadvantage and felt compelled to make major concessions in order to avoid losing Nihon Musen to a competitor. Fourthly, Telefunken stated that the involvement of foreign companies further intensified competition in the Japanese market. Therefore, they preferred a strong partner that was influential in the Japanese industry. With the prominent Zaibatsu Okura they believed they had identified such a partner.

Nevertheless, Nihon Musen's expectations associated with the cooperation agreement were unfulfilled until the mid-1930s. The management of Nihon Musen deemed Telefunken's assistance to be inadequate.³⁹ The company grew to over 30,000 employees. However, other Japanese companies overtook them with the help of American technology, for example in the radio business or in aircraft transmitters.⁴⁰ In the domain of electronic tubes, Nihon Musen was able to contend with Tokyo Denki, which was backed by General Electric, on a level playing field for market leadership.

In turn, Telefunken complained about the insufficient dividend, which until 1935 had only been sufficient to offset the salary of the liaison officer, Mr. Elfeldt.⁴¹ The primary cause of this discrepancy can be attributed to the practical implementation of the cooperation. Telefunken was not willing

37 Kudō, *The Japanese and German Economies*, 79–83.

38 Compare for the following arguments: *Schreiben an das Reichskriegsministerium, Abwehrabteilung, Oberst Hinke, 12.07.1935*, in: AEG-TFK, Verhandlungen mit Yamamoto.

39 *Nakajima an the Board of Directors Telefunken, 5.12.1934*, in: AEG-TFK, Beziehungen 1934–1936.

40 *Elfeldt an Telefunken, 13.10.1934*, in: AEG-TFK, Beziehungen 1934–1936.

41 *Aktennotiz über eine Besprechung bei Herrn Dir. Schwab, 18.06.1935, Betr. Nihon Musen, Japan*, in: AEG-TFK, Verhandlungen Mit Yamamoto.

to comprehensively share its developments with Nihon Musen. Instead, essential information on manufacturing methods and advancements was withheld. They merely wanted to create the “appearance”⁴² of appropriately fulfilling the contract.⁴³ This was done with the intention of preventing Nihon Musen from transitioning to a different partner, particularly an American one. Consequently, Nihon Musen attempted to gain relevant insights primarily by analyzing finished devices but was only partially successful.⁴⁴ The boundaries of the contractually guaranteed rights are evident from this asymmetrical practice.

Armament and technology transfer: The relationship between Telefunken and Nihon Musen during the time of National Socialism

After the National Socialists came to power, relations between the German Reich and Japan changed. The first rapprochement took place in the context of the Japanese annexation of Manchuria and shared imperialist aspirations. With the Anti-Comintern Pact and the subsequent treaties, the so-called Axis was formed in 1936 as a military alliance around Japan, Italy and the German Reich.⁴⁵ Telefunken used the new political framework to advance its interests and thus its security strategy by supplementing its controlling cooperation with an increased profit motive.

Until the mid-1930s, Telefunken worked intensively on the development of the television set. It was stylized into a symbol of prosperity by the Nazi regime.⁴⁶ Telefunken achieved significant advancements in this domain, and Nihon Musen wanted to participate in this development. Nevertheless, Telefunken was reluctant to divulge this valuable information. As a result, they initially advanced the position that television sets were not covered by the contract. Nihon Musen did not share this interpretation.⁴⁷ To solve the dilemma, Telefunken cleverly used the new political conditions to its

42 Translated by the author, original: Anschein

43 *An Herrn Dr. Jobst, 17.2.1934*, in: AEG-TFK, Beziehungen 1934–1936.

44 *Elfeldt an Telefunken, 31.10.1934*, in: AEG-TFK, Beziehungen 1934–1936.

45 Daniel Hedinger, “The Imperial Nexus: The Second World War and the Axis in Global Perspective,” *Journal of Global History* 12, no. 2 (2017); Robert Gerwarth, “The Axis: Germany, Japan and Italy on the Road to War,” in *The Cambridge History of the Second World War: Volume 2*, ed. Richard Bosworth and Joseph Maiolo (Cambridge University Press, 2015).

46 Wolfgang König, “Das Scheitern einer nationalsozialistischen Konsumgesellschaft,” *Zeitschrift für Unternehmensgeschichte* 48, no. 2 (2003).

47 *Aktennotiz über eine Besprechung bei Herrn Direktor Schwab, 27.09.1935*, in: AEG-TFK, Beziehungen 1931–33.

advantage. The contract also included a clause that granted a political veto right. After the National Socialists came to power, technology exports in the field of radio technology had to be approved by the Reich Ministry of War. In light of these considerations, Telefunken elaborated in its correspondence with the Ministry that there existed a potential for information to be conveyed to Americans.⁴⁸ As a result, the ministries stopped the process.⁴⁹

From the mid-1930s onwards, the focus of interest shifted to technology that could be used for military purposes. Not only Telefunken but also Nihon Musen engaged in war production in preparation for the Second World War.⁵⁰ One year before the Anti-Comintern Pact was signed, the relations between Telefunken and Nihon Musen had already begun to improve. The demand for armaments stimulated the production. At the same time, there was a change at the head of Nihon Musen. Dr. Nakajima became the new director. He tried to increase the benefits of the contract for both companies.⁵¹ Nihon Musen intensified the demand for documentation on Telefunken products. In particular, there was a demand for devices that could be used by the Navy and the Air Force, including submarine direction finders, homing systems, and blind landing devices.⁵² Conversely, Nihon Musen provided Telefunken with numerous lucrative government contracts within this product segment from 1935 onwards.⁵³ Telefunken, in turn, lobbied the government authorities of the Third Reich for approval of the requested technology exports and was successful in many cases. Telefunken's influence is particularly evident here, in contrast to the example of television. The cooperation was thus also driven forward with the aim of increasing profits. Telefunken even supported Nihon Musen with the technical organization of the newly built factories, which simultaneously demonstrated the entrepreneurial efforts in response to the boom in demand. Nihon Musen employees were allowed to visit Telefunken and AEG production facilities.⁵⁴

48 *Schreiben an Reichskriegsministerium Abwehrabteilung, Oberst Henke, 5.10.1935*, in: AEG-TFK, Beziehungen 1931–33.

49 *Schreiben an Dr. Rottgardt, 27.11.1935*, in: AEG-TFK, Verhandlungen mit Yamamoto.

50 On Telefunken: Kilian Steiner, *Ortsempfänger, Volksfernsehr und Optaphone: Die Entwicklung der deutschen Radio- und Fernsehindustrie und das Unternehmen Loewe 1923–1962* (Klartext Verlag, 2005), 187–91.

51 *Nakajima an The Board of Directors Telefunken, 5.12.1934*, in: AEG-TFK, Beziehungen 1934–1936.

52 *Telefunken an das Oberkommando des Heeres, 10.5.1939*, in: AEG-TFK, Erfahrungsaustausch und Lizenzverhandlungen mit Mitsubishi.

53 Also in the following *Telefunken an Abwehrstelle im Wehrkreis III, 24.3.1939, Geheim*, in: AEG-TFK, Erfahrungsaustausch und Lizenzverhandlungen mit Mitsubishi. An exact overview has not survived. They exceeded a volume of more than 3 million Reichsmarks.

54 AEG-TFK, Besuch von Nihon Mitarbeitern.

Despite these improvements in relations, Telefunken was not satisfied with the returns, so the contract was initially not renewed in 1943. At the same time, Mitsubishi had offered to become a new representative and partner.⁵⁵ Mitsubishi was one of the largest zaibatsu, the central player in the defense industry, and was now seeking to enter the radio business.⁵⁶ Telefunken speculated that Mitsubishi could also become a leader in this industry. To minimize risk and to contractually control the development more comprehensively, Telefunken decided to enter into an agreement with both.⁵⁷ Negotiations continued until April 1945 but failed because communication was disrupted by the war and the Japanese companies did not want to be placed at a disadvantage compared to the other.⁵⁸

The revitalization of relationships with Nihon Musen after 1945

By the end of the Second World War, Telefunken was left without any contractually obligated partner in Japan. In Germany, until 1950, the company's development was characterized by destruction, dismantling and lack of raw materials. Then Telefunken began to expand enormously, which led to the company's golden years in the 1950s and 1960s, which held for the German electrical and consumer electronics industry as a whole.⁵⁹ At the same time, Telefunken initiated the rebuilding of its pre-war international network.⁶⁰

As early as 1950, Nihon Musen, with Dr. Nakajima still in position, seized the initiative. Otherwise, the company had changed significantly. As a consequence of the reorganization of the Japanese economy by the American occupying power, the Okura zaibatsu was dismantled.⁶¹ In contradiction with his own assertions, the previous proprietor, Baron Okura, possessed merely 17% of the shares. The workforce had undergone a significant

55 In the following: *Dr. von Mangel an Telefunken*, 26.12.1940, in: AEG-TFK, Vertragsverhältnis (II). By the end of the 1930s Mitsubishi already held some Nihon Musen shares. Since they were unable to gain influence over the business, they sold them again. The contact with Telefunken was established this way.

56 In the following: *Schreiben an Dr. von Mandel*, 3.4.1941, in: AEG-TFK, Vertragsverhältnis (II); *Schwab: Verlängerung des Nihon Musen Vertrags und Abschluß eines Vertrages mit Mitsubishi*, 2.6.1943, in: AEG-TFK, Vertragsverhältnis; *O.E. Ostasiendienst Nr. 131*, 15.11.1943; *Umbau im ostasiatischen Raum*, in: AEG-TFK, Vertragsverhältnis.

57 *Vertrag zwischen Telefunken und Mitsubishi*, 6.11.1944, in: AEG-TFK, Lizenzverhandlungen mit Mitsubishi.

58 AEG-TFK, Geheimer Telegramverkehr mit Vertretung in Japan.

59 Josef Reindl, *Wachstum und Wettbewerb in den Wirtschaftswunderjahren: Die elektrotechnische Industrie in der Bundesrepublik Deutschland und in Großbritannien 1945 – 1967* (Schöningh, 2001).

60 AEG-TFK, Auslandsvertretungen.

61 Satoshi Nishida, *Der Wiederaufbau der japanischen Wirtschaft nach dem Zweiten Weltkrieg* (Steiner, 2007).

reduction, from a peak of over 30,000 to a current figure of 1,400–2,000.⁶² Nonetheless, Telefunken did not become fully aware of this new development until after the contract was signed. They did not dispatch any of their own employees to Japan for the negotiations. Instead, they relied on the statements of the Japanese representative of Nihon Musen in Düsseldorf and the brief visit of an employee of the parent company AEG.⁶³

On April 1, 1957, the patent exchange and agency agreement entered into force for a period of ten years. This new agreement was less symmetrical than the previous one. It guaranteed Telefunken a staggered share of Nihon Musen's sales, irrespective of the use of the patents.⁶⁴ Furthermore, Nihon Musen lost the guarantee of a technology transfer through its own inquiries.

Nihon Musen accepted this asymmetrical contract because they needed the technology transfer to get established in the consumer electronics business.⁶⁵ Telefunken's intention was initially to cooperate in order to maximize profits.⁶⁶ The expectation of a rapidly expanding Japanese industry, which had been present before 1945 and most recently in the negotiations with Mitsubishi, was not a factor in the conclusion of the contract. However, it was brought to the attention of the Telefunken board in 1959, when CEO Hans Heyne visited Japan as part of his "world tour".⁶⁷ Other stops on the trip included Telefunken offices in Canada, Mexico, the United States, Hong Kong, India, Kenya, and South Africa. The goal of the first visit to these offices was to promote the integration of the global network in order to ultimately increase engagement in foreign markets. In his socio-cultural perception, Heyne adhered to a 19th and early 20th century romanticized view of Japan, based on his earlier visits.⁶⁸ He was disappointed by the assimilation of the Japanese lifestyle to Europe and the United States. On a business level, he clearly anticipated that Japan was on its way to becoming one of the world's leading electronics countries.⁶⁹ He

62 *Die Geschichte von Nihon Musen*, in: AEG-TFK, Japan; *Notiz: Nihon Musen*, 18.12.1959, in: AEG-TFK, Japan.

63 *Japan-Notizen von Herrn Dr. Heyne*, 3.12.1959, in: AEG-TFK, Japan.

64 *Summarische Zusammenstellung*, 27.3.1957, in: AEG-TFK, Japan.

65 *Präsident Japan Radio, I. Kuboki, an Heyne*, 25.4.1960, in: AEG-TFK, Japan; *Notiz Nihon Musen*, 18.12.1959, in: AEG-TFK, Allgemeine Patentfragen.

66 *Notiz: Nihon Musen*, 18.12.1959, in: AEG-TFK, Japan; *Aktennotiz über eine Besprechung in Bad Wiessee*, 08.04.1961, in: AEG-TFK, Allgemeine Patentfragen.

67 Translation by the author, original: *Weltreise*

68 *Heyne: Notiz, Japan-Besuch*, 18.11.1959, in: AEG-TFK, Japan. On the romance of Japan: Stephan Köhn, "Fremdbilder – Selbstbilder: Einige Gedanken zur wechselseitigen Beziehung zwischen Japan und Deutschland," in *Fremdbilder - Selbstbilder: Paradigmen japanisch-deutscher Wahrnehmung (1861–2011)*, ed. Stephan Köhn (Harrassowitz, 2013).

69 *Protokoll der Besprechung mit dem Vorstand am 4.2.1960*, in: AEG-TFK, Japan.

based this assessment on technological developments, modern production structures and wage levels. He foresaw the development of the Japanese electrical and consumer electronics industry. These enterprises developed into “*Japan’s flagship industrial sector[s]*”, as Hirohisa Kohama emphasized, and thus played a key role in shaping Japan’s enormous economic growth until the 1980s.⁷⁰ He thus concluded that Telefunken needed to intensify its relations and cooperation with Japan, but Nihon Musen was perceived as the “weakest company”.⁷¹ Telefunken’s investigations revealed that Nihon Musen was only the twelfth strongest company in the Japanese industry in terms of turnover and technology potential.⁷² Telefunken’s direct competitors on the world market, such as Philips, RCA or General Electric, were, on the contrary, associated with leading Japanese companies such as Matsushita, Sony or Mitsubishi. Nihon Musen no longer rose to join this circle. As a result, Telefunken ended the partnership in 1967.

The Japanese industry as the world market leader: The readjustment of relations as AEG-Telefunken

Hans Heyne had still been warning that Telefunken would have to stay “hellishly vigilant” with the Japanese development.⁷³ Four years later, in 1963, the new CEO Felix Herriger, analyzed the situation even more critically. As mentioned in the introduction, he even diagnosed a catch-up by the Japanese industry. He therefore called for an adjustment of the security strategy. Cooperation should now also be stepped up in order to cooperate technologically with Japanese companies and thus also learn from them. This was intended to secure one’s own position in the various markets. It was only in 1970 that this was defined as a strategy by the so-called “Japan Concept”, and implementation began. One reason for the delayed implementation was probably the restructuring of Telefunken, which absorbed much attention.⁷⁴ Around 1970, however, given the media-effective debate on the “Japanese challenge”, the interest was once again fully directed at the Japanese competitors. The hysterically conducted debate, which was characterized by numerous stereotypes, declared Japan to be the coming

70 Hirohisa Kohama, *Industrial Development in Postwar Japan* (Routledge, 2007), 90.

71 Translation by the author, in the original “allerschwächste Firma”. *An Verteiler: Japan Besuch, 4.11.1959, Heyne*, in: AEG-TFK, Weltreise.

72 *Heyne an Verteiler (Vorstand), 23.11.1959: Größenordnung der japanischen Elektroindustrie*, in: AEG-TFK, Japan.

73 Notiz: Hauptbesprechung Nihon Musen, 29.10.1959, in: AEG-TFK, Weltreise. In the Original: höllisch

74 Strunk, *Die AEG*, 54–55, 74–78.

world power.⁷⁵ With references to the leading role of the state or the collectivist thinking and actions of Japanese society, the Japan Concept integrated the central arguments of the debate on the Japanese challenge. At the same time, it also developed concrete corporate guidelines.⁷⁶

The first step was to increase the company's presence in Japan. To this end, a resident engineer was stationed in Japan in 1970 to serve as an immediate contact partner for Japanese companies.⁷⁷ The engineer was instrumental in the company's decision to pursue two further avenues of expansion: the purchase of products for incorporation into the company's own product range as part of an OEM business and the expansion of license management. The OEM business was very profitable and was also used by other German companies. In the early 1970s, the Japanese company Funai Denki was already supplying simple tape recorders and radios that complemented Telefunken's product range in the lower price segment.⁷⁸ The licensing business, on the other hand, was less prosperous. Telefunken was only marginally successful in enforcing its formulated licensing claims in the radio and black-and-white television sector.⁷⁹ The Japanese companies collectively denied its use.⁸⁰ Ultimately, in 1972, the Electronic Industries Association of Japan (EIAJ), the Japanese industry association, issued an expert opinion stating that Japanese companies were using alternative electrical resistors. Telefunken contested this assessment. However, no payments were forthcoming.

Telefunken's most significant and valuable patent holdings were the so-called PAL patents.⁸¹ As the proprietor, Telefunken assumed the role of a gatekeeper for the respective national color television markets. In the early 1970s, only these licenses allowed for producing color television sets for over 20 countries. In Japan and the United States, there was an incompatible alternative standard for television broadcasting in the form of NTSC. However, Japanese companies also wanted to export to PAL

75 For a detailed elaboration of the following arguments, see: Staffel, *Konkurrenz und Kooperation*.

76 In the following: *Aktennotiz über eine Besprechung in Hannover, 22.9.1969, zur Japan Lizenz-Politik im Unterhaltungselektronikbereich*, in: AEG-TFK, PAL Japan; *Beschlussvorlage Vorstandssitzung, 13.1.1971: Japan-Konzept, 21.9.1970*, in: AEG-TFK, Japankonzept.

77 *Vertretungssituation AEG-Telefunken in Japan, 1970*, in: AEG-TFK, Japankonzept.

78 *Einzelbericht Gespräch mit Funai, 16.6. und 19.6.1971*, in: AEG-TFK, PAL Japan.

79 *Aktennotiz über eine Besprechung bei PT-H, 2.2.1971*, in: AEG-TFK, Japan Reiseberichte.

80 *Einzelberichte: Japanreise, 9.6.-26.6.1971*, in: AEG-TFK, PAL Japan.

81 Cf. in the following: Andreas Fickers, "‘Politique de la grandeur’ versus ‘Made in Germany’: Politische Kulturgeschichte der Technik am Beispiel der PAL-SECAM-Kontroverse" (Oldenbourg, 2007); Ibid., "From Colour TV War to Non Aggression Pact," in *Knowledge Management and Intellectual Property*, ed. Stathis Arapostathis and Graham Dutfield (Elgar Publishing, 2013).

countries and therefore applied for the production licenses. Telefunken only extended these licenses to countries that had also adopted the PAL standard. It was precisely these PAL patents that were the decisive factor for finding an equivalent Japanese cooperation partner. From Telefunken's perspective, this constituted the fourth step. In the final analysis, Telefunken selected Hitachi as its preferred Japanese partner, having considered the options presented by Toshiba and Sony.⁸² As one of the largest electronics companies in Japan, Hitachi was a partner with comparable standing and product portfolio. The enterprises agreed to engage in a comprehensive exchange of licenses and experiences as well as to identify potential areas of cooperation for joint projects. In return, Hitachi received the exclusive right to manufacture 400,000 PAL television sets up to 19 inches in size, with the first 100,000 units being provided free of charge.

Nevertheless, just six months after its agreement in February 1971, this clause partially lost its value. Several Japanese companies, including Sony, Matsushita, Sanyo and Toshiba, announced that they had developed workarounds for the PAL patents.⁸³ In its internal review, Telefunken determined that the variants effectively circumvented the patents to such an extent that the outcome of a legal dispute was uncertain.⁸⁴ Consequently, Telefunken was compelled to grant production quotas to the Japanese companies.⁸⁵ This case served as a strong reminder to Telefunken of the extent of the technological advancement already achieved by Japan.

This already foreshadowed later developments.⁸⁶ In the course of the 1970s and at the beginning of the 1980s, Japanese companies gradually displaced Telefunken products even from the European markets. Technologically, the balance of power shifted. Telefunken was significantly reliant on Japanese technology imports in the video recorder sector, for instance. The cooperation agreement with Hitachi did not yield the desired outcomes, particularly due to Telefunken's failure to recognize the potential of knowledge acquisition. Simultaneously, the supply of goods from Japanese companies continued to increase, resulting in Telefunken gradually losing its own production base. The Telefunken divisions, including those of consumer electronics, played a substantial role in the financial difficulties experienced by AEG-Telefunken, the second largest electronics

82 *Vereinbarung zwischen Telefunken und Hitachi Limited, 17.2.1971*, in: AEG-TFK, Japankonzept.

83 *Vorlage für die Vorstandssitzung am 07.07.1971*, in: AEG-TFK, PAL Japan.

84 *Auszug aus dem Protokoll der Vorstandssitzung vom 13.7.1971*, in: AEG-TFK, PAL Japan.

85 *Notiz: PAL-Lizenzen für die Hersteller in Nicht-PAL-Ländern, sowie An alle leitenden Mitarbeiter der TFR zur Kenntnis, 16.2.1972*, in: AEG-TFK, PAL Japan.

86 In detail Staffel, *Konkurrenz und Kooperation*.

group in the Federal Republic of Germany, which led to the company filing for insolvency in 1982.

Conclusion

This article has shown that Telefunken chose cooperation as a security strategy in response to growing Japanese competitiveness since the 1920s. The intentions and priorities of the cooperation changed in the process. At the beginning of the 1920s, the expectation of increasing competitiveness shaped the conclusion of the contract with Nihon Musen, so that the cooperation was primarily signed in order to control development through access to the Japanese market or through the enforcement of patents. With the armament before the Second World War, the focus was on profit maximization, which was also based on Japanese government contracts. This intention also shaped the revitalization of relations with Nihon Musen after 1945. It was only after the renewed conclusion of the contract that the decision-makers at Telefunken again recognized the catch-up process in the Japanese industry, to which they reacted in 1970 by developing the “Japan Concept”. This in turn emphasized technological profiting and thus, as a new component, learning from the Japanese industry, since it had become the technological leader.

This case study from the electrical and consumer electronics industry shows how a company perceived and reacted to the Great Convergence Process. The scientific macro perspective, which often provides institutional or resource-related explanations, is thus supplemented by a concrete decision-making dimension of the historical actors. Specifically, it was examined how the development was anticipated, security strategies were developed, and also how crucial decisions were missed. The cooperation, with its various nuances, formed the line of continuity in German-Japanese corporate relations beyond the caesura of 1945.

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8 Risk Management of Market Entry

Early Korean-German Business Cooperation in the Pharmaceutical Industry, 1957–1972

Thomas Eichert

Introduction

Multinational enterprises (MNEs) faced significant risks in post-liberation Korea¹, which limited the number of foreign companies willing to enter the market. Beyond the broader challenges of a war-torn economy, specific risks related to Korea's political and economic instability played a crucial role. In the 1950s, Korea was heavily dependent on U.S. aid, which often favored American companies and created barriers for German firms. Economically, corruption and poor policies under the Rhee and Chang governments stunted growth, leaving Korea among the world's poorest nations until the early 1960s.² Additionally, the constant threat of conflict with North Korea posed a direct risk to corporations, while domestic political instability marked by protests, authoritarian regimes, and military coups brought frequent shifts in policies toward foreign businesses during the Cold War.

Despite these challenges, a small number of German companies – specifically in the pharmaceutical and chemical industry – recognized the potential of the Korean market. Among the first to export to Korea were the three largest successors of the Interessengemeinschaft Farbenindustrie AG (IG Farben): BASF AG, Farbenfabriken Bayer AG (Bayer) and Farbwerke Hoechst AG, vorm. Meister, Lucius & Brüning (Hoechst). Beginning after the Korean War, these three companies exported products such as fertilizers, dyestuffs, and pharmaceuticals to Korea. While BASF remained

- 1 This chapter refers to South Korea as Korea and West Germany as Germany unless specified otherwise. Korean words and names are transcribed according to the revised McCune-Reischauer system except commonly used names. Korean names are written family name first.
- 2 For a concise overview on the Korean economic and political situation during the Rhee administrations, see Michael J. Seth, “An Unpromising Recovery: South Korea's Post-Korean War Economic Development: 1953–1961,” *Education about Asia* 18, no. 3 (2013): 42–45. For an overview on the transition period and the political economy from the Rhee to the Park government, see Stephen Haggard et al., “The Transition to Export-led Growth in South Korea: 1954–1966,” *The Journal of Asian Studies* 50, no. 4 (1991): 850–873.

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focused on exports until the early 1980s, Hoechst and Bayer expanded their presence through licensing agreements with Korean partners in 1957 and 1960, respectively. These agreements marked the beginning of a deeper collaboration, which later led to the establishment of joint ventures in 1964 and 1972.

This chapter examines these early Korean-German pharmaceutical business cooperation in the late 1950s. Pharmaceuticals are particularly interesting since they constitute a knowledge-intensive industrial and commercial sector requiring specialized state regulation and licensing, which adds significant risk, especially for foreign corporations. The chapter focuses on the partnership between Hoechst and the Korean pharmaceutical company Handok, and its influence on the joint venture formation process of Bayer. By analyzing the motivations, interests and strategies of the corporations in a network of business-state relations, this chapter shows how the German pharmaceutical companies cooperated with Korean and German state and non-state actors to mitigate political and financial risks during market entry.

Developmental State and the Cold War: Korea as a High-Risk Environment

Before delving into the case study, I will briefly outline the risk environment in Cold War Korea from the perspective of multinational enterprises (MNEs) in general and German companies in particular. Following the Korean War, Korea's markets remained underdeveloped until the military coup of Park Chung Hee in 1961, when his government started to actively promote economic development. Through efficient use of developmental aid for its economic plans, Korea achieved rapid industrialization and transformed from an agrarian economy to an emerging industry. Benefiting from its position in Cold War geopolitics, Korea was primarily supported by U.S. aid. Yet, it was Germany that was the first country that provided developmental aid for the Park government, starting with DM 150 million in 1962.³ German companies played an instrumental role in establishing the German developmental aid program for Korea while also benefiting from the projects supported by developmental loans and export credit guarantees.⁴ Besides the interest in the developmental aid projects, interest in the

3 Patrick Köllner, "Die deutsch-koreanischen Beziehungen von 1945 bis zur Gegenwart," in *Korea 1998: Politik, Wirtschaft, Gesellschaft*, ed. Patrick Köllner (Institut für Asienkunde, 1998), 21.

4 Thomas Eichert, *Södok chimensü kiöbsa-ro ponün handok kwan'gye 1961-1980: Kumsöngkwa-üi hapchakt'uja-rül chungshim-üro* [*Siemens in Korea, 1961-1980: Focusing on the Joint Venture with Gold Star*] (Master Thesis, Seoul National University, 2021), 25–40.

Korean market remained low. This was reflected in the trade relations and the investments of German companies in Korea.⁵

Emerging markets have the potential to provide ample opportunities for MNEs, but they are also inherently risky due to their high uncertainty.⁶ Mark Casson and Teresa da Silva Lopes classify risks related to foreign direct investment (FDI) in three general categories: Unfamiliarity, Institutional and Natural. Within those categories, institutional risk encompasses political, social, business, and financial risk.⁷ The literature suggests several prevention and mitigation strategies that MNEs can employ to manage the various types of risk such as lobbying the government to prevent political risk or cloaking to disguise the nationality of the firm during politically sensitive times.⁸

Unfamiliarity with Korea and the Korean market and lack of information thereof, was one of the biggest issues faced by German companies and was constantly cited concerning their reluctance to enter the Korean market.⁹ The main reason for this unfamiliarity was distance, not only in its literal sense – geographical distance – but also cultural and linguistic distance.¹⁰ Knowledge not only of the local political and economic landscape but also the culture and language has been deemed a competitive advantage since better information improves strategy and decision making.¹¹ There were multiple chasms like Japanese colonialism and the Korean war, which disrupted the continuity of development on the Korean peninsula. These frequent changes meant that German companies could not rely on a continuous accumulation of knowledge and implement knowledge management systems. For example, the early successful German trading companies like E. Mayer & Co. did not survive the turbulent events of the first half of the 20th century and ceased to exist in Korea.¹² Thus, German companies

5 Köllner, “Die deutsch-koreanischen Beziehungen von 1945 bis zur Gegenwart,” 32–36.

6 Christina Lubinski and Matthias Kipping, “Introduction: Translating Potential into Profits: Foreign Multinationals in Emerging Markets Since the Nineteenth Century,” *Management & Organizational History* 10, no. 2 (2015): 93–102.

7 Mark Casson and Teresa da Silva Lopes, “Foreign direct investment in high-risk environments: an historical perspective,” *Business History* 55, no. 3 (2013): 375–404, here 376.

8 *Ibid.*, 395.

9 Byung-Hwan Yae, *Die Handelsbeziehungen zwischen Deutschland und Korea nach dem Zweiten Weltkrieg* (Steiner, 1997), 122–123.

10 In international business this is termed “psychic distance”. According to Internationalization Theory, psychic distance influences market entry. See Jan Johanson and Erik Vahlne, “The Mechanism of Internationalisation,” *International Marketing Review* 7, no. 4 (1990): 13.

11 Shakila Yacob. “Rising of the Phoenix: Mitigating Political Risk through Knowledge Management—Behn, Meyer & Co., 1840–1959,” *Enterprise & Society* 19, no. 4 (2018): 946–978.

12 Harald Fuess, “E.Mayer & Co. at the Eastern Frontier of Capitalism: The Leading Western Merchant House in Korea, 1844 to 1914,” *Zeitschrift für Unternehmensgeschichte* 61, no. 1 (2016): 3–30.

had to use other strategies to overcome unfamiliarity. Transaction cost theory on market entry suggests for example, that “under high cultural distance, a firm may choose low control to compensate for its lack of local knowledge, relying on a local partner”¹³.

Besides unfamiliarity, political risk played a major role in German companies’ decision-making and strategies. Political risk as a concept is often used in a rather broad definition of negative effects of government on business activities.¹⁴ This chapter follows along this broad definition of political risk as interventionist policies and regulations of the Korean government that directly affected the business activities of the German companies, specifically, import restrictions and investment regulations.

Not all aspects of political risk were of interest for the German companies; for example, the German firms were not directly concerned about the military coup of Park and the threat of authoritarianism.¹⁵ In fact, the German firms actually preferred the Korean political system of the Park era which has been coined as the “developmental state”¹⁶ in the literature since the 1980s due to its focus on economic development and strong repression of labor, which provided a certain amount of predictability in contrast to the possibility of political instability and unrest.¹⁷ The developmental state emphasized the role of the state and its interventionist policies in the development process. The key principle of the Korean developmental state was that the government seized control over the finance sector by nationalizing the banks to force firms to adhere to their economic plans

13 Oded Shenkar, “Beyond cultural distance: Switching to a friction lens in the study of cultural differences,” *Journal of International Business Studies* 43, (2011): 12–17.

14 Christopher Kobrak et al., “Business, Political Risk, and Historians in the Twentieth Century,” in *European Business, Dictatorship, and Political Risk 1920–1945*, ed. Christopher Kobrak and Per H. Hansen (Berghahn Books, 2004), 4.

15 As can be seen for example in the discussion from Bayer’s sale department: “The KZB [*Kaufmännisches Zentralbüro*] participants do not believe that the political events in South Korea pose a threat to the sales business.” See extract from the minutes of the 104th meeting of the Commercial Central Office, 19 May 1961, in: BAL 329-0524-11.

16 The concept of the developmental state originated from research of Japanese economic development and was first explored by Chalmers Johnson. See Chalmers Johnson, *MITI and the Japanese Miracle* (Stanford University Press, 1982). Since the 1980s, there has been a plethora of works that apply an expand the concept of developmental state to South Korea, the most influential ones being the following: Alice H. Amsden, *Asia’s next giant: South Korea and late industrialization* (Oxford University Press, 1989); Meredith Woo, *Race to the swift: state and finance in Korean industrialisation* (Columbia University Press, 1991); Eun Mee Kim, *Big business, strong state: collusion and conflict in South Korean development, 1960-1990* (Sunny Press, 1997).

17 This could be seen in a report to Hoechst after the reelection of President Park in 1967: “The president was reaffirmed in office in the spring of 1967 for another four years, ensuring continued development, including in the economic sector.” Yearly Report 1967 Korea, 2 February 1968, in: Hoechst Archive, A0–143.

through preferential loans, subsidies and tax reductions. At the same time, the government protected the Korean firms from foreign competitors through import restrictions and a strict licensing system.¹⁸ The core institution within the developmental state was an autonomous and meritocratic bureaucracy organized hierarchically with the Economic Planning Board (EPB) on top, taking on the role as the overall coordinator. The EPB was also the authority responsible for foreign capital licenses.¹⁹ The Korean EPB's evaluation process of foreign investment fits with the legitimacy-based view of political risk: Only investments that appeared "consistent with the government's long-term economic, political, and social goals"²⁰ were approved in the evaluation process of the EPB. The Korean bureaucracy approved investment proposals only if they aligned with Korea's developmental goals, particularly those emphasizing export orientation.

Financial risk was an even larger issue in Korea during the Park government. For their ambitious economic plans and rapid expansion, Korea and its companies needed a large amount of capital. This meant that Korean companies had high debt-equity ratios, a situation that was only sustainable when the whole economy continued growing.²¹ The high debt of Korean companies posed risks for potential cooperations with foreign companies.

There were also business risks. One of the most important assets of a firm and its business activity is its brand and reputation.²² In Korea, infringements of trademarks and patents in particular was a continuous issue for German companies. An important aspect of risk prevention or mitigation strategies is legal security in the form of property rights and contracts.²³ Yet, even after establishing the rights of German companies to register trademarks and protect patents, there were cases of unauthorized usage of trademarks and stolen technologies.²⁴ Even if foreign companies had a valid legal case

18 Russel Mardon, "The State and the Effective Control of Foreign Capital: The Case of South Korea," *World Politics* 43, (1990): 111–38.

19 Byung-Kook Kim, "The Leviathan: Economic Bureaucracy under Park," in *The Park Chung Hee Era*, ed. Byung-Kook Kim and Ezra F. Vogel (Harvard University Press 2011), 206–213.

20 Charles E. Stevens et al., "Toward a Legitimacy-based View of Political Risk: The Case of Google and Yahoo in China," *Strategic Management Journal* 37, no. 5 (2016): 947.

21 Byung-Kook Kim, "The Leviathan: Economic Bureaucracy under Park," 203.

22 On the concept of reputation and risks that affect reputation in business, see Christopher Kobrak, "The Concept of Reputation in Business History," *Business History Review* 87, (2013): 763–86.

23 Mark Jakob and Nina Kleinöder, "The Security and Insecurity of Enterprises: Constructing and Negotiating Dangers, Hazards, and Threats in Business History," in *Security and Insecurity in Business History: Case Studies in the Perception and Negotiation of Threats*, ed. Mark Jakob et al. (Nomos 2021), 17.

24 One early example was Bayer. Bayer was surprised to discover in 1955 that the company *Korea Agricultural Chemicals Co* (Han'guk Nongyak) was manufacturing and selling the Bayer seed treatment product *Ceresan* in Korea. See Letter from UHAG to

and sued, the chances of winning in a Korean court against Korean companies were slim, leading even the German embassy and the German Chamber of Commerce in Korea to actively dissuade German firms from going to a Korean court until at least the 1980s.²⁵

The last and least relevant risk for foreign companies in Korea during the 50s and 60s were social risks. According to Casson and da Silva Lopez, social risk is instigated by social groups in the host country. Examples of instigators include trade unions and pressure groups.²⁶ Social risk for firms in Korea came from political demonstrations, strikes and boycotts through social pressure groups. Beginning from the 70s and especially in the mid to late 80s, there emerged a strong labor movement which also affected most German firms in Korea at that time. Besides the labor movement, the democratization movement accompanied by constant student demonstrations that disrupted daily life posed risks to daily business activities.²⁷ As early as 1968, Hoechst noted that the first trade unions were beginning to form in Korea. Hoechst feared that this trend would spread to its Korean joint venture but noted that dissatisfaction among workers in other companies had led to the formation of unions, while the working atmosphere at their joint venture was described as “quite good”.²⁸ However, by 1975, the workers at the joint venture formed a union, yet according to the CEO of the joint venture, there did not emerge a single dispute between laborers and management.²⁹

Narrowing down the broad framework of risk discussed in this chapter, the following case study shows what kind of risk the German MNEs from the pharmaceutical industry faced during their early market entry in Korea and what strategies they employed to mitigate such risk.

the Farbenfabriken Bayer A.G. Abteilung Verkauf Pflanzenschutz, August 13, 1955, in: BAL 329-1506-03. Another case was the reverse engineering of the Bayer/Merck parasite control medicine Praziquantel by the Korean state chemists who licensed the know-how to a Korean company. For a detailed overview of the case, see Park Jungje and Junho Jung, “1970-1980nyöndae han’guk kuch’ungje saengsan kisu hyöngsöng-gwa hwallyong: p’rajik’want’el kuksanhwa-wa kanhüpch’ung kwalli saöp [Localization of Praziquantel production and Clonorchiasis Control Program in Korea, 1970s-1980s],” *Korean J Med Hist* 30, no. 2 (2021): 317–54.

25 Letter from the Director of the German Chamber of Commerce in Korea Florian Schuffner to Franz Josef Kolpin, 21 February 1984, in: PA AA, B 37-ZA/142740.

26 Casson and da Silva Lopes, “Foreign direct investment in high-risk environments,” 376.

27 For an overview on the labor movement and the democratization movement see Hagen Koo, *Korean workers: The culture and politics of class formation* (Cornell University Press, 2001), and Namhee Lee, *The making of minjung: democracy and the politics of representation in South Korea* (Cornell University Press, 2011).

28 HDR report 1968 from Steeneck, 21 January 1969, in: Hoechst Archive, A0-143.

29 Kim Yeong Jin, “Tumyöng kyöngyöng-ül t’onghae shilloe-rül p’anün cheyaksaga toegessümnida,” *Korea Employers Federation* Special Interview II, March 2010, 43.

Managing Unfamiliarity: Of Establishing a Korean-German Partnership

Hoechst started selling their products in Korea after the Korean War, being interested in the Korean market despite the lower purchasing power than that of neighboring Japan.³⁰ In Korea, foreign companies often faced financial risks due to the lack of foreign currency from the Korean state and Korean firms. German companies preferred not to be paid in Korean Won but either in U.S. dollar or German Mark. However, the amount of foreign currency in Korea was directly tied to financial aid and loans from foreign states and businesses. This was the main reason why Hoechst itself preferred to manufacture directly in Korea, since the country's import restrictions on finished goods, triggered by a lack of foreign currency and the protection of domestic industries, made exports to Korea increasingly difficult.³¹

In Korea, Hoechst was represented by the trading company FOHAG (*Fernosthandelsgesellschaft* [Far East Trading Company]), which handled the sale of Hoechst's products.³² Trading companies as partners were essential in the beginning to prevent risks from uncertainty.³³ Not only were they more familiar with the market conditions in Korea than the German companies, but they also had established networks with Korean companies, Korean bureaucrats and in some cases high-ranking politicians. FOHAG

30 Note concerning South Korea Meeting with Bochow, Steeneck, Dr. Bunge and Lanz in Tokyo on April 9, 1958, 2 May 1958, in: Hoechst Archive, A0-520a. For contrast, Hoechst had several Japanese joint ventures directly after the World War 2. See "Interview with Alfred Dienst, president of Hoechst Japan Ltd.," *Journal of Japanese Trade & Industry*, 1983.

31 Audit report of the Interministerial Capital Investment Guarantee Committee, 22 September 1964, in: PA AA, B58-407ABT.8IIIB1-3323.

32 Contract of Representation between Hoechst and FOHAG, 2 September 1957, in: Hoechst Archive A0- 520a.

33 The first foreign trading companies in Korea were established during the Chosŏn period in the second half of the 19th century but activities ceased during the Japanese colonial period. Following the Korean War, several new trading companies were established in Korea, including *Eisenberg & Co.*, FOHAG, and UHAG (*Übersee Handelsgesellschaft* [Overseas Trading Company]). These companies primarily acted as representatives for foreign firms, facilitating the sale of their products and brokering industrial projects. Typically, major German corporations were represented by a single trading house, while individual trading companies often represented multiple firms. However, direct competitors were generally not represented by the same trading company. For instance, when UHAG, which served as Bayer's commercial agent, sought to also represent BASF, Bayer intervened to prevent the arrangement. In a message to UHAG, Bayer writes that it "has certain reservations about the takeover of BASF's representation by Uhag, Seoul." See Extract from the minutes of the 48th meeting of the Commercial Central Office on the letter from 28 January 1956, 15 February 1956, in: BAL 329-0524-11. However, there were exceptions like FOHAG which represented both Hoechst and BASF.

brought Hoechst in contact with the Korean company *Union Drugs* (*Yönhap Yakp'um*). Union Drugs was a small company that imported essential medicines, which were in high demand due to the aftermath of the Korean War, and quickly achieved sizable success in the Korean market. However, the company soon recognized that importing alone would not suffice and saw establishing a local production with the help of established pharmaceutical companies through technical assistance agreements as a shortcut to the company's development.³⁴

During a visit from Henning, the head of Hoechst's Asia department, the president of Union Drugs, Kim Shin Kwon, shared his plans for a cooperation, quickly impressing him with his enthusiasm. Kim also developed a strong connection with Dr. Bunge, who was then part of Hoechst Japan, as both could communicate in Japanese. Together with FOHAG managers, they bonded over frequent informal meetings. Thus, Henning and Bunge provided positive reports about Kim's plans to Hoechst headquarters.³⁵ This led to an invitation from Hoechst for Kim to travel to Germany in Winter 1957 to negotiate a licensing agreement with Hoechst's board of directors. Influenced by the positive reports of Henning and Bunge, Union Drugs' sales success, and Kim's strategic vision, the negotiations proceeded smoothly. Even those board members who were initially opposed to handing over the "Hoechst" brand to Korean control eventually relented and placed their trust in the company. The basic terms of the contract were swiftly settled using international standards, but one key issue that remained a point of contention was the royalty fees. This topic was extensively debated during the first meeting in Frankfurt and would continue to surface throughout the collaboration. As Kim was a pioneer in cooperating with foreign firms, he had no local benchmark for royalty fees and feared that his agreement might set a precedent for future collaborations. Hoechst initially demanded a 15% royalty, which shocked Kim, who had anticipated a maximum of 10% and hoped for 5%. In a final attempt, Kim offered to establish a joint venture instead of paying royalties, but Hoechst stood firm. Hoechst justified the royalty fees as a way to demonstrate the value of their contribution (trademarks, know-how, etc.), but they also expected that the royalties would have to be transferred at the free-market exchange rate, which was significantly higher than the official rate at the time, leading to lower royalties and posing a financial risk.³⁶ In November 1957, Hoechst and Union Drugs signed the agreement.³⁷

34 Handok Yakp'um, *Handokyakp'um 50nyönsa* [50 Year History of Handok Pharmaceuticals], 2004, 118–20.

35 Handok Yakp'um, *Handogyakp'um 50nyönsa*, S. 128f.

36 Travel report Korea Hennig, 23 October 1960, in: Hoechst Archive, A0-520a.

37 Contract between Hoechst and Union Drugs, 15 November 1957, in: Hoechst Archive A0-520a.

At the heart of this partnership was Kim's desire to build a significant pharmaceutical company in Korea and Hoechst's intention to establish a foothold in Korea. At this early stage, these interests aligned well, promising a successful start to the partnership. However, given the restrictions against foreign ownership of Korean companies at the time, both parties signed a Promotion Agreement in mid-1958, allowing Hoechst (with FOHAG) to purchase two-thirds of the company's shares once foreign ownership became permissible.³⁸ Following Hoechst's approval, Kim and his Korean partners at Union Drugs established the company *Han-Dok Remedia* (HDR). Although Hoechst had no direct ownership at this stage, they were already involved in the company through key management roles, including the provision of a technical director.³⁹ Hoechst expressed full confidence in Kim, allowing him to establish the company independently, but insisted that a Hoechst technician oversee technical operations and retain control of proprietary formulations. Additionally, Hoechst ensured that HDR would not acquire rights to Hoechst trademarks unless Hoechst itself gained ownership stakes.⁴⁰

Investment Regulation and the Establishment of the First Korean-German Joint Venture

When the Investment Law was passed on January 1, 1960, Kim quickly inquired about the potential for Hoechst's investment. However, the law only applied to countries with which Korea had established friendship, trade, and shipping agreements, a category that at the time only included the United States. The old treaties between Germany and Korea from the Chosŏn era (1392-1910) from 1883 were no longer valid in the new South Korea state. Hoechst inquired with the German government about the prospects for a new treaty, but it was deemed unlikely due to diplomatic sensitivities with Japan. Brief consideration was given to the idea of pursuing the investment through Hoechst's U.S. subsidiary, but the political instability following the fall of the Rhee regime halted these discussions.⁴¹ In the following year, the new Park government amended the Investment Law, removing the requirement for a formal treaty, thereby officially making it possible for German companies to invest in Korea.⁴²

38 Travel report Korea Hennig, 23 October 1960, in: Hoechst Archive, A0-520a.

39 Overview Han-Dok Remedia, 16 October 1958, in: Hoechst Archive, A0-520a.

40 Sales management report on Korea assembly project, 19 February 1958, in: Hoechst Archive, A0-520a.

41 Travel report Korea Hennig, 23 October 1960, in: Hoechst Archive, A0-520a.

42 Letter from German Ambassador Büniger to the Federal Foreign Office, 15 February 1961, in: Hoechst Archive, A0-520a.

Although the new Park government consistently emphasized the need for foreign capital and promoted investment, it did not always grant the necessary approvals and the criteria for approval were often not clear in the beginning.⁴³ In April 1962, the government rejected Hoechst's first investment application, citing that the proposed investment would merely expand existing production rather than introduce new products.⁴⁴ This forced Hoechst to change its strategy to secure approval from the Korean government. Meanwhile, HDR had grown rapidly since the start of the partnership, with annual sales increases exceeding 50%, making it Korea's second-largest pharmaceutical company by 1962. Hoechst attributed this to their technical management, but also emphasized Kim's activity, especially for his good sales organization and intensive advertising. In the same year, the previous main company, Union Drugs, was also merged into HDR,⁴⁵ something Kim had been planning since early 1960.⁴⁶ Despite this achievement, HDR's rapid growth, however, also posed challenges for Hoechst. The initially planned two-thirds ownership was reduced to 51%, but by this point, HDR was valued at nearly \$1 million, making majority ownership unlikely. Hoechst therefore opted for a 25-26% stake,⁴⁷ enough to benefit from the Investment Law while maintaining a blocking minority.⁴⁸

In the following year, HDR faced growing challenges. Despite continued sales growth of nearly 50%, the company fell to third place in market share and struggled to cover costs. Worsening market conditions, increased competition, and the bankruptcy of smaller distributors strained HDR. Dr. Bunge, Hoechst's delegate at HDR, emphasized the need for rapid expansion, describing the situation as "grow or die."⁴⁹ However, the

43 One example would be that although the Foreign Investment Encouragement Law did not officially specify a minimum investment amount, the Economic Planning Board (EPB) set a threshold of USD 200,000. Additionally, with few exceptions, foreign corporations were generally prohibited from holding majority ownership. To qualify for the benefits under this law, foreign companies were required to hold at least 25% of the shares in a joint venture. Besides, there were specific regulations for different industries. Generally, the investment needed to benefit Korea. Cf. Lee, "The Effectiveness of Incentives Under the Foreign Capital Inducement Act of Korea," 115.

44 Note on rejection of the investment application, 4 May 1962, in: Hoechst Archive, A0-Korea.

45 Overview foreign organization Farbwerke Hoechst, 1 January 1970, in: Hoechst Archive, A0-10c.

46 Travel report Korea Hennig, 23 October 1960, in: Hoechst Archive, A0-520a.

47 Travel report Dieter zur Loye, page 5, 15 November 1962, in: Hoechst Archive, A0-Korea.

48 The most important benefit was the tax-free period of five years which decreased economic risks for the foreign companies. Yet there was also a clause that allows for duty free import if the investment was done by assets in kind (*Sacheinlagen*). See Guarantees for investments abroad, 12 September 1967, in: BArch, B 126/75005.

49 Letter Dr. Gustav Bunge to Hoechst, 7 March 1963, in: Hoechst Archive, A0-Korea.

uncertainty surrounding Hoechst's investment and contractual restrictions limiting HDR's product distribution made quick expansion difficult. The situation was further complicated by differing business strategies: while Kim and HDR sought to offer a diverse range of products, Hoechst preferred to focus on a narrower portfolio of specialties. This divergence strained the relationship between HDR and Hoechst, and Dr. Bunge stressed the need for a frank discussion to reconcile the differing interests of the stakeholders.⁵⁰ The Korean government approved only investments that brought new base production into the country, placing national benefits at the forefront. Meanwhile, HDR required capital and new products to expand, while Hoechst needed greater influence over HDR's distribution and a stronger bond to continue advancing its interests in Korea.

For the second investment application to the EPB, Hoechst and HDR proposed constructing a facility to produce the plasma substitute *Haemaccel*. However, the EPB was not satisfied with this alone, as similar plasma substitutes were already being manufactured in Korea. The EPB also required the establishment of a plasma extraction facility, which could enable plasma exports and bring foreign currency into Korea. Additionally, it imposed conditions, including the stipulation that investment capital could not be repatriated for five years and that any dividends during this period must be reinvested. Hoechst anticipated that the Federal Foreign Office would intervene through the German embassy, leveraging Germany's economic aid to Korea and the upcoming investment promotion agreement to support the application.⁵¹ The German government assured that it will support Hoechst's endeavors.⁵² Moreover, the German government granted full coverage for the investment project,⁵³ valued at approximately DM 1 million, effectively eliminating financial risk for Hoechst. This ultimately led to the EPB approving the application in 1964.⁵⁴

50 Letter Dr. Gustav Bunge to Hoechst, 7 March 1963, in: Hoechst Archive, A0-Korea.

51 Starting in 1958, Germany pioneered so called Bilateral Investment Treaties (BIT) to facilitate investment and reduce investment barriers and risk. The bilateral treaty between Germany in Korea was concluded in 1964. On the emergence of BITs see Quinn Slobodian. *Globalists: The End of Empire and the Birth of Neoliberalism* (Harvard University Press, 2018), 142–45.

52 Travel report Korea Karl Boss, 9 May 1963, in: Hoechst Archive, A0-520a.

53 Like most countries, Germany offers export and investment guarantees to support its economy in countries with high political and economic risks. Since the beginning of the 20th century, the private *Hermes Kreditversicherungsbank AG* and the *Deutsche Revision und Treuband AG* have been carrying out this task on behalf of the state. In 1965, Korea was the third largest recipient of state Hermes cover among the developing countries, after China and Turkey, with a volume of DM 1.85 billion. See Herbert J. Kefler. *Internationale Handelsfinanzierung* (Gabler Verlag, 1996), 56.

54 Audit report of the Interministerial Capital Investment Guarantee Committee, 22 September 1964, in: PAA B58-407ABT.8IIIB1-3323.

With its decision to invest, Hoechst also chose to terminate its representation agreement with FOHAG, as HDR was now positioned to manage its own representation. However, under the 1958 Promotion Agreement, FOHAG still retained the option to acquire shares in HDR, though this was only feasible with guarantees and loans from Hoechst. After the first investment application was rejected, Bochow, FOHAG's owner, lost interest in participating and, according to Hoechst's evaluation, lacked the financial capacity to do so. Furthermore, the investment required contributions in equipment and materials rather than capital, excluding FOHAG, which operated solely as a trading company. Despite this, Bochow attempted to claim compensation for previous promises and agreements prior to the separation. Although he was not contractually entitled to any compensation upon termination of the contract on December 31, 1965, Hoechst, having planned to transfer operations by mid-1965, offered him a settlement of USD 25,000.⁵⁵ Bochow accepted the offer, bringing the nearly decade-long collaboration between Hoechst and FOHAG to an end on June 30, 1965.⁵⁶

The production of Haemacel, enforced by the Korean government and thus intended as the first joint project and a catalyst for the newly formed joint venture, proved to be a significant failure despite its initially promising outlook. The factory was completed in November 1965, and production began as planned. The first 2,200 bottles were exported back to Germany for sale in Europe by Hoechst. Of the next 1,000 bottles produced, 500 were distributed as marketing samples to Korean hospitals, while the remaining 500 were donated to the Tiger Division of the Korean army fighting in the Vietnam War, where Haemacel was used as a blood substitute for battlefield casualties or patients suffering from severe blood loss due to serious accidents.⁵⁷

However, just one year after its market launch, the Korean media erupted with reports of severe side effects linked to Haemacel, including skin inflammation, fever, chills, and sepsis. Additionally, the product's low efficacy was criticized, leading to public calls for a production halt. To quell public concerns, HDR temporarily ceased production and withdrew the product from the Korean market. In its published corporate history, HDR attributed these side effects to improper use, which they acknowledged was partly due to their own mismarketing. At the time, amino acid infusions from Japan were popular as nutritional supplements, and Haemacel had been promoted by HDR as a similar product. This misrepresentation led to

55 Note for meeting with Mr. Bochow, 28 January 1965, in: Hoechst Archive, H0047015.

56 Circular from sales department regarding the transfer of Hoechst business, 3 March 1965, in: Hoechst Archive, H0047015.

57 Handok Yakp'um, *Handogyakp'um 50nyönsa*, S. 140.

incorrect use of the drug, resulting in more frequent side effects than would have occurred with proper application.⁵⁸

To offset the following weak domestic sales, Hoechst attempted to export Haemacel to Southeast Asia and other regions; however, these efforts met with limited success. The fate of Haemacel was sealed in 1969 following a conflict with a medical newspaper, showing another example of risks that companies faced in Korea, namely public opinion. The *Korean Medical News* published two critical articles on October 30 and November 3, harshly attacking HDR and Hoechst. HDR suspected that the negative coverage was retaliatory, as they had recently ceased advertising in the paper. According to President Kim, the newspaper had also threatened to publish negative reports on other HDR/Hoechst products, such as *Cambison* which was one of HDR's flagship products.⁵⁹ Both HDR and Hoechst saw no future for Haemacel in Korea, and eventually discontinued its production.⁶⁰ Despite the failure of the Haemacel project, the joint venture company found success with its other products such as Festal and the aforementioned Cambison. The quick dismissal of the Haemacel production indicates that the Haemacel project primarily served as a strategy to secure the necessary government approval to enter the Korean market.

Thus, the first joint venture between a German and a Korean company was formed. Hoechst managed investment risks in Korea by adapting to regulatory changes, securing government support, and maintaining flexible ownership stakes. Despite these efforts, the Haemacel project failed due to reputational and operational risks, but the joint venture mitigated further damage by quickly discontinuing the product and focusing on successful alternatives.

Risk Mitigation through Networks in the Korean Pharmaceutical Industry

Following Hoechst's example, Bayer wanted to expand its pharmaceutical business in Korea. Their motivation was to strengthen and secure their position in the Korean market for the future. A joint venture would give them greater influence over their direct business operations in Korea.⁶¹ Bayer already had a Korean partner of their own, *Hanil Pharmaceutical Ind. Co. Ltd.*, with whom they had entered into a licensing agreement for

58 Handok Yakp'um, *Handogyakp'um 50nyónsa*, S 141.

59 Letter from Brendel to Hoechst KDA regarding newspaper publications about side effects of Haemacel, 6 November 1969, in: Hoechst Archive, A0-143.

60 Yearly Report 1968 Korea, 21 January 1969, in: Hoechst Archive, A0-143.

61 Letter from Bayer director Salzer to the Bayer Board of directors concerning joint venture, 26 September 1967, in: BAL, 059-477.

the distribution of their pharmaceutical products – especially *Aspirin* – in the early 60s.⁶² Like Hoechst with Handok, Bayer wanted to transform this license-based partnership into a joint venture. As the name suggests, Handok and Hanil also had a close connection. Woo Dae-gyu, the president of Hanil, was one of the six founding members of Handok's predecessor, Union Drugs, where he served as managing director (*chönmu*) until he left in the late 1950s to start his own company. Despite their separation, Woo and Handok's president Kim, remained lifelong friends.⁶³ Although competitors in the same industry, like Bayer and Hoechst, produced different kinds of pharmaceuticals and thus targeted different markets, that rarely led to direct competition.

As part of the planning process, Karl-Heinz Fischer, a Bayer employee delegated to Seoul, visited the Handok factory and submitted a detailed, multi-page report praising the facility. He also made comparisons between Handok and Hanil, identifying aspects necessary for a successful partnership. The report frequently emphasized the importance of “experience,” such as selecting key players with years of expertise both in their work and in international business. Fischer was also present at the groundbreaking ceremony for Handok's factory expansion, reporting details of the project to Bayer's headquarters.⁶⁴ Bayer also calculated the costs for the project according to Hoechst's example. With \$350,000, most of the fixed assets could be covered. Thus, they planned an investment of \$350,000, about one-third more than for the Handok factory. However, unlike Handok, Bayer aimed for a 50% stake in the joint venture. While the sources do not clarify if this was influenced by their awareness of Hoechst's struggle for control in Handok, it seems a plausible explanation. Especially since Bayer had already lost some influence over their partner Hanil, as Hanil began offering products from other pharmaceutical companies in 1966, producing and selling them under its own brand while exploiting its prestige

62 Hanil Yakp'um, *Hanilyakp'um 30nyönsa* [30 Year History of Hanil Pharmaceuticals], 1990, 134-139.

63 Handok President Kim Shin Kwon describes the friendship as follows: “Chairman Woo and I have been friends for 50 years and have shared a similar life journey. We were both displaced from the North, and we both remained in the pharmaceutical business. After Korea's liberation, when I was hiding in Pyongyang, I couldn't find a place to live as a refugee, but Chairman Woo willingly gave me a room in his house, allowing my family to live in peace for a while.” “[Ko udaegyü hoejang] chasikkat'un'haniryakp'um' kasüme mutko... 14se ttae cheyakkye immun 87sero yöngmyönhan cheyak Isedae [(Late Chairman Woo Tae-gyu) “Hanil Pharmaceutical” is like a child buried in his heart... Entered the pharmaceutical industry at the age of 14 and passed away at the age of 87]]”, *Yaksagongnon*, 12 March 2007.

64 Report by Bayer employee Dr. Karl-Heinz Fischer regarding a visit to the manufacturing plant of HAN-DOK-REMEDIA, 18 April 1966, in: BAL, 363-056.

as a Bayer licensee. Bayer also feared that Hanil might not be willing to cede the majority of shares to Bayer, although the licensing agreement with Hanil included the possibility of equity participation. Nevertheless, Hanil was generally open to Bayer's participation, as Fischer reported that the company was "obviously undercapitalized" and needed capital to expand its operations.⁶⁵

Yet, undercapitalization of Hanil posed a financial risk for Bayer as well. In 1966, Hanil and Bayer began negotiations for a joint venture, with Bayer seeking a majority stake.⁶⁶ The talks were prolonged, particularly due to disagreements over licensing fees, with Hanil President Woo arguing that the Korean government would not approve such fees. Due to the financial situation, Hanil requested compensation for its intangible assets and agreed to most of Bayer's demands, except for the licensing fees.⁶⁷ To apply pressure, Bayer explored partnerships with other Korean companies but ultimately continued negotiations with Hanil, making concessions such as relaxing the non-compete clause and allowing Hanil to distribute Bayer products temporarily.⁶⁸ A compromise was reached with a 2.5% "technical fee," and the joint venture agreement was signed in 1968, with Bayer holding a 51% stake and increasing its capital investment to meet Korean regulations. To diminish the financial risk, Bayer was at the same time looking into insuring their investment. Like Hoechst, they applied for government guarantees and opted for investment guarantees from the Deutsche Revisions- und Treuhand AG (Treuarbeit). The Treuarbeit acted as a broker for investment guarantees and worked closely together with Hermes.⁶⁹

Despite these long negotiations, the joint venture application was rejected by the Ministry of Health and Social Affairs, citing the lack of basic manufacturing, the same reason as Hoechst's initial rejection. The authorities also disapproved of Bayer taking a majority of shares. It remains unclear why the network failed to overcome this information asymmetry, as both Bayer and Hanil should have known that basic manufacturing was a fundamental requirement for joint venture approval. Further discussions led to a plan to include basic manufacturing of antibiotic preparations. However,

65 Attachment "Probleme des Pharma-Geschäfts Korea" to the letter from Verkauf Pharma Ausland C1 to Bayer board of directors concerning the visit of president D. K. Woo, Hanil Pharmaceutical, 8 July 1966, in: BAL, 363–056.

66 Summary of the discussion with President Woo in Leverkusen, 20 July 1966, in: BAL, 363–056.

67 Letter from Hanil President Woo to Bayer Pharmaceutical Sales Department, 4 December 1967, in: BAL, 363–056.

68 Letter from Bayer's Pharmaceuticals Sales Department to the Bayer Board of Directors regarding the Korea joint venture, 28 December 1967, in: BAL, 363–056.

69 Letter from Hermann Baum to Bayer Board of Directors regarding Korea Joint Venture, 22 March 1968, in: BAL, 059–477.

new problems emerged, delaying the joint venture by another two years. This time, the issue lay with Hanil, whose financial situation had worsened, making it difficult to finance their share of the venture. By mid-1971, Hanil offered to contribute assets instead of cash, including part of their factory site and building. Bayer agreed, as they were under time pressure: the licensing agreement between Bayer and Hanil was set to expire at the end of 1971, and the Korean authorities refused to extend it, which would force Bayer out of the Korean market.⁷⁰

Although the reapplication for permission for a joint venture was finally granted by the Korean authorities, Hanil's financial situation deteriorated further. Despite Bayer's willingness to provide a USD loan to prevent the project from failing, this proved insufficient.⁷¹ As the joint venture was on the verge of registration, Hanil's financial difficulties worsened significantly. In response, Bayer appealed to the Ministry of Health and the EPB for approval to change partners, arguing that Hanil's persistent financial troubles would further prolong an already four-year process. The joint venture agreement permitted Bayer to dissolve the partnership if their partner faced financial instability.⁷² The EPB was receptive to Bayer's request, assuring that the joint venture approval would remain valid as long as the project continued to comply with regulatory requirements. The authorities recommended that Bayer only replace the Korean partner to maintain EPB approval without altering other aspects of the venture.⁷³

Here the pharmaceutical network surrounding Union Drugs played a big role once more. Much to the annoyance of Hanil president Woo,⁷⁴ Bayer found a new partner in *Hanmi Pharmaceuticals*, buying the majority of the company in 1972 and renaming it *Bayer Pharma Korea*. Hanmi was a company even more directly connected to Handok. Originally a purely

70 Letter von Bayer Director Walter Salzer Bayer Board of Directors regarding Korea Joint Venture, 17 May 1971, in: BAL, 059-477.

71 Letter from Hoechst Representative Steeneck to Hoechst Sales Dep., 9 April 1969, in: Hoechst Archive, A0-143.

72 Letter from Bayer to Deputy Prime Minister Tae Wan-Son, 27 March 1972, in: *Kukka kirogwön*, BA0889675.

73 Letter from EPB Assistant Minister Whang Byung Tai to Bayer, 7 April 1972, in: *Kukka kirogwön*, BA0889675.

74 According to a newspaper article, Woo Dae-gyu expressed deep regret, thumping his chest and lamenting that he had lost Bayer to his longtime friend and "arch-rival", Kim Shin Kwon. At the same time, the article also mentioned that Woo Dae-gyu received USD 200,000 in compensation, though it is unclear from the available sources whether this was accurate or who provided the payment. Nevertheless, Woo successfully guided his company out of financial difficulties and back onto a positive trajectory, suggesting that he was at least able to secure necessary capital. See "Sanöbinmaek (30) cheyagöp <14> chöngsanggümmeik'ö [Connections in the industry (30) Pharmaceutics Industry <14> Top-Maker]", *Maecil Kyöngje*, 12 April 1974.

Korean joint venture between Handok's board of directors and Samsung, it was to become an international cooperation with the U.S. firm Merck Sharp & Dohme (MSD).⁷⁵ The president and largest shareholder of Hanmi was Ahn In-hyuk, also one of the founding members of Union Drugs in the early 50s and part of the friend group surrounding Handok president Kim Shin Kwon and Hanil president Woo Dae-gyu. Instead of MSD, Bayer became the new partner of Hanmi and even after forming the joint venture, Handok president Kim and two other board members of Handok stayed on the board of directors, and Kim even became chairman. However, just one year later, all Handok investors withdrew from the company, and President Ahn In-hyuk acquired their shares, becoming the sole Korean shareholder in Bayer Pharma Korea.⁷⁶ The exact reasons for this action and its impact on the relationships between the involved parties cannot be fully reconstructed from the available sources. Nevertheless, it seems plausible that Hoechst may have influenced Handok's decision to cease direct involvement in a Bayer-affiliated company, as Hoechst had previously expressed dissatisfaction with Handok's dealings with the company Hanmi even before Bayer came into play. Despite this, Kim Shin Kwon remained on Bayer Pharma Korea's board of directors, maintaining at least some degree of influence over the company's management.⁷⁷

In conclusion, Bayer's efforts to expand its pharmaceutical business in Korea were heavily influenced by the connections within the broader pharmaceutical network, particularly links to Handok and Union Drugs. Initially, Bayer sought a joint venture with its licensing partner Hanil Pharmaceutical. However, due to Hanil's financial instability and prolonged negotiations, Bayer ultimately turned to Hanmi Pharmaceuticals, a company closely tied to Handok through its leadership and historical ties to Union Drugs.

Conclusion

The development of the partnership between Union Drugs, HDR, and Hoechst demonstrates the critical importance of risk management and security strategies in foreign investments. From the beginning, strategic partnerships with Korean companies and trading firms like FOHAG mitigated early risks related to market unfamiliarity. This collaboration offered Hoechst valuable local knowledge and networks, while Kim's

75 Travel report Korea D. Cord together with Dienst, 28. March 1969, in: Hoechst Archive, A0-143.

76 "Sangp'yo malssong-(asup'irin) togilbael cheso...küönjori [Trouble surrounding trademark, "Aspirin" Bayer lawsuit...]", *Maeil Kyöngje*, 4. September 1973.

77 Compilation by Dr. Stenzel "Bayer in Korea", 20 February 1976, in: BAL, 302–1044.

ambition aligned with Hoechst's desire to navigate Korea's challenging foreign exchange environment and restrictive import policies. However, as the venture progressed, both companies faced significant challenges, including financial risks, misaligned business strategies, and public relations crises. Hoechst's preference for direct manufacturing in Korea was driven by the country's economic protectionism and foreign currency shortages, but the reliance on government approvals and changing regulations added further complexities. The ability to adapt to these challenges, supported by insurance mechanisms like export and investment guarantees and investment regulation and promotion like the Korean investment law and BITs, ultimately shaped the trajectory of the partnership, demonstrating the necessity of aligning strategic interests with local realities in foreign investments.

In the second case, Bayer's strategy to enter the Korean pharmaceutical market reflects its calculated approach to mitigating both political and financial risks. Initially modeled after Hoechst's success with Handok, Bayer's joint venture formation process faced prolonged negotiations, regulatory barriers, and Hanil's financial instability. To safeguard its position, Bayer sought a new partner, cooperating with Korean authorities and thus securing approval to maintain the venture under a new structure. Bayer retained flexibility while leveraging its local network surrounding the former Union Drugs to navigate the complexities of the Korean market. This approach ultimately allowed Bayer to mitigate the risks and establish a stable, long-term foothold in Korea's pharmaceutical industry.

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9 German Chemical Enterprises and Investment Licensing in Post-WWII Japan

High-growth Japan and Political Risk, 1950–1975¹

Jonathan Krautter

Introduction

This chapter investigates how German firms responded to the political risk posed by the Japanese government's industrial policy, particularly the foreign investment and technology import licensing system during the postwar period (1950–1975). German chemical firms began to enter the Japanese market in the first half of the 1950s. At the time, they faced tremendous uncertainty stemming from a rapidly changing institutional environment, at the heart of which was an ambiguous licensing system used by the government to restrict foreign control of domestic companies.² This chapter examines how German firms operating in Japan perceived and dealt with these restrictions. It shows that the security strategies these firms employed as a response had major repercussions for the management of their Japanese subsidiaries.

In recent years, a growing body of literature has shed light on how political risk in host countries affects the entry strategies and business activities of multinational enterprises (MNEs). Many of the contributions to this literature examine the behavior of MNEs in high-risk environments characterized by war, authoritarian regimes, or antagonistic postcolonial governments.³ This paper contributes to the existing literature by examining

1 The research leading to this paper was funded by the Deutsche Forschungsgemeinschaft (DFG, German Research Foundation – 400896132).

2 For an introduction to the licensing system, see: Mark Mason, *American Multinationals and Japan: The Political Economy of Japanese Capital Controls, 1899 – 1980* (Harvard University Press, 1992), 150–161.

3 Teresa Da Silva Lopes, “Extraordinary Risk Management in International Business Strategy,” in *International Business in Times of Crisis*, ed. Rob van Tulder et al., 1st ed. (Emerald Publishing Limited, 2022), 97–110; Pierre-Yves Donzé, “The Advantage of Being Swiss: Nestlé and Political Risk in Asia During the Early Cold War, 1945–1970,” *Business History Review* 94, no. 2 (2020): 373–397; Shakila Jacob, “Rising of the Phoenix: Mitigating Political Risk Through Knowledge Management—Behn, Meyer & Co., 1840–1959,” *Enterprise and Society* 19, no. 4 (2018), 946–978; Pierre-Yves Donzé

the case of post-WWII Japan, specifically exploring the strategies employed by German firms to secure their position in this market.

Studies of MNE entry in Japan suggest that political risk was pervasive. Findings on American direct investment make clear that the licensing system turned entry into a lengthy process whose intricacies were difficult to grasp for the relevant managers.⁴ These observations are corroborated by histories of German enterprises.⁵

Regardless of these difficulties, the rapid growth of Japanese markets attracted numerous potential foreign investors.⁶ Another major motivation for investing directly or concluding license agreements was to circumvent import restrictions.⁷ Despite these motivations, German managers did little during the 1950s and 60s to come to a deeper understanding of Japanese business and culture. Instead, it often was their future Japanese business partners that initiated contact, proposed cooperation and served as “guides” to navigate the institutional environments.⁸

German chemical firms, despite being in the same industry and offering similar products, adopted diverse strategies to navigate political risk during the 1950s. Strategies became even more varied when they established their manufacturing presence during the 1960s. In many cases, the security strategies relied on newly established relationships with foreign or Japanese partners ‘on site,’ facilitating flexible decision-making and information gathering, and expanding networking opportunities.

and Takafumi Kurosawa, “Nestlé Coping with Japanese Nationalism: Political Risk and the Strategy of a Foreign Multinational Enterprise in Japan, 1913–45,” *Business History* 55, no. 8 (2013), 1318–1338; Geoffrey Jones and Christina Lubinski, “Managing Political Risk in Global Business: Beiersdorf 1914–1990,” *Enterprise and Society* 13, no. 1 (2012), 85–119.

4 Mason, *American Multinationals and Japan*, chapters 3–5; Hiroshi Aoki, “Superî Rando no Nihon Shinshutsu to Tôshiba [Sperry Rand’s Expansion to Japan and Toshiba],” *Keieishigaku* 53, no. 1 (2018), 3–21.

5 See, for example: Carsten Knop and Werner Plumpe, *Freudenberg, 1849-2024: Ein Start-up der Revolution* (Campus Verlag, 2024), 207–210. See also the contribution of Florian Staffel in this volume.

6 Mason, *American Multinationals and Japan*, 150; Raymond G. Stokes and Ralf Banken, *Building on Air: The International Industrial Gases Industry, 1886-2006* (Cambridge University Press, 2016), 321.

7 Christian Kleinschmidt, *Der produktive Blick: Wahrnehmung amerikanischer und japanischer Management- und Produktionsmethoden durch deutsche Unternehmer 1950 – 1985* (Akademie-Verlag, 2002), 338; Knop and Plumpe, *Freudenberg, 1849-2024*, 207–8; Christian Marx, *Wegbereiter der Globalisierung: Multinationale Unternehmen der westeuropäischen Chemieindustrie in der Zeit nach dem Boom (1960er–2000er Jahre)*, 1st ed., (Vandenhoeck & Ruprecht, 2023), 127.

8 Kleinschmidt, *Der produktive Blick*, 336–340.

High-Growth Japan and Political Risk

The Japanese economy in the 1950s and 1960s was characterized by high growth rates and rapid industrial transformation. Business activity expanded throughout the economy, new industries such as petrochemicals took shape, and the heavy and chemical industries began to take center stage.⁹

In this environment, the political risk faced by (prospective) foreign investors was linked to the informality of the licensing system for direct investments and technology imports, as well as the general attitude of the Japanese government. The officials at the Ministry of International Trade and Industry (MITI) and the Ministry of Finance (MOF), who had primary jurisdiction over licensing decisions, did not publicly inform prospective investors of the specific criteria they applied. They were invested with the authority to make wide-ranging “recommendations” (*kankoku*), which, in practice, took the form of changes to joint venture and licensing contracts, and business plans. Such recommendations were not usually communicated in writing but orally.¹⁰ Until the liberalization of import trade in the early 1960s, the Japanese government also had to approve the import of most goods and machinery.¹¹

Business historian Teresa da Silva Lopes distinguishes between four major sources of risk: volatility, uncertainty, complexity, and ambiguity. In postwar Japan, the two main sources of risk were ambiguity and uncertainty. Da Silva Lopes explains that ambiguity arises when actors lack knowledge, especially concerning institutional rules, or when there are no stable institutional rules in the first place.¹²

This ambiguity is clearly expressed in a letter from the President of the German Chamber of Industry and Commerce in Japan, Dr. Gustav Bunge, who also acted as the technical delegate of the chemical company Farbwerke Hoechst A.G. In his letter, Dr. Bunge explained that the licensing procedure

9 Shuhei Aoki et al., “The Role of the Government in Facilitating TFP Growth During Japan’s Rapid-Growth Era,” in *Community, Market and State in Development*, ed. Keijiro Otsuka and Kaliappa Kalirajan (Palgrave Macmillan, 2010), 21–44; Akira Kudo, “Die zweite Aufholjagd: Deutsche Technologie bei der Einführung der Petrochemie im Japan der Nachkriegszeit,” in *Technologietransfer aus der deutschen Chemieindustrie (1925 – 1960)*, ed. Rolf Petri (Duncker & Humblot, 2004), 355–402.

10 Richard W. Rabinowitz, *Japan’s Foreign Investment Law of 1950: A Natural History* (Dt.-Japan. Juristenvereinigung, 2003), 62–69; foreign observers frequently complained about these aspects of the licensing system, see, for example, OECD, Committee for Invisible Transactions, *Liberalisation of International Capital Movements: Japan* (Organisation for Economic Co-operation and Development, 1968), 43, 57–58.

11 Robert S. Ozaki, *The Control of Imports and Foreign Capital in Japan* (Praeger, 1972), chapter 2.

12 Da Silva Lopes, “Extraordinary Risk Management in International Business Strategy,” 98–99.

as a whole was characterized by “ambiguity” (*Unklarheit*) and that clearly spelled out legal rules were non-existent. To illustrate his point, Bunge emphasized that there was no clear answer to the question whether a DM 50,000,000 investment into an automobile subsidiary by one of the large German car makers or a DM 3,000 investment of a small enterprise into a button manufacturing and sales subsidiary were more likely to obtain validation.¹³ In other words, even for a veteran businessman such as Bunge it was difficult to navigate the vagaries of the licensing system.

Moreover, this ambiguity was not the only source of risk for foreign investors. There was considerable uncertainty, as well. According to Lopes, uncertainty refers to the difficulty of predicting how events will unfold in the future. Even though actors might have a good understanding of what might happen and why, the dynamics of their environments are too unstable to properly account for them in their business decisions.¹⁴

This paper contends that the licensing system was a major source of uncertainty. Like the government’s industrial policy, in general, it was difficult to predict significant policy changes such as the introduction of liberalization measures and whether they would actually have a noticeable effect in terms of easier obtainment of licenses. More specifically, though, the solutions foreign investors found to deal with the ambiguity of the licensing system were themselves a source of uncertainty. These solutions, as will be shown in the case studies, usually limited the control foreign investors had over their business in Japan.

BASF’s Entry into Japan

One of the earliest German investors into postwar Japanese chemical markets was Badische Anilin und Soda-Fabrik A.G. (BASF). As one of the three major successors of I.G. Farbenindustrie A.G., the prewar chemical giant that was dissolved by the Allied powers, the company was no stranger to Japan.

After the re-establishment of BASF in 1952, the company sought to re-enter the Japanese market by acquiring a stake in the Japanese company “Color Chemie Trading Co.” (Color Chemie). This company was founded by old business partners of BASF, the trading firms Yamada Kasei and Katsura Sangyo, who imported German dyestuffs into Japan since the

13 Correspondence from Dr. G. Bunge to Dr. W. Boss, 20. December 1965, BAV 247-TOKY/7095, Botschaft Tokyo, Bundesrepublik Deutschland – Auslandsvertretungen, The Political Archives of the Federal Foreign Office, Berlin, 4–5.

14 Da Silva Lopes, “Extraordinary Risk Management in International Business Strategy,” 98–99.

late 19th Century. Their goal was to continue selling BASF products, which they achieved in 1949, when business relations were reinstated.¹⁵

While BASF managers worked on penetrating the dyestuff and auxiliary chemicals markets by way of direct investment, they chose to enter the infant Japanese petrochemical market via a series of licensing agreements with Mitsubishi Petrochemical Co., Ltd. (Mitsubishi Petrochemical). For the Mitsubishi group, cooperation with BASF was a second pillar in their petrochemical strategy, other than its close cooperation with Shell. With their two European partners, it sought to develop its business in all important segments of this industry. Initially, BASF licensed essential technology to manufacture high-pressure polyethylene, the key product of the industry in 1957. Several more licensing agreements with Mitsubishi Petrochemical and other important Japanese firms, such as Mitsubishi Heavy Industries Co., Ltd., and Mitsubishi Chemical Co., Ltd., followed in the wake of this first contract.¹⁶ This short list demonstrates that the initial contacts with the Mitsubishi group served as a first step in the establishment of broader relations with multiple group firms. Nevertheless, BASF also cooperated with the main chemical manufacturers of the equally important Mitsui and Sumitomo business groups.

The relation with Mitsubishi later proved as a point of entry for a second direct investment. In the immediate postwar decades, one of BASF's hit products was foamed polystyrene sold under the trademark "Styropor". It was this technology that BASF managers selected for commercialization in Japan, and they did so by utilizing their relationship with the Mitsubishi group. Together with Mitsubishi Petrochemical, they established a joint venture named "Yuka Badische Co., Ltd." in 1962 to manufacture Styropor.¹⁷

As its business activities in Japan expanded into various directions during the 1960s, BASF acquired further shares of Color Chemie Trading Co. from the Japanese shareholders, which was reflected in a name change to "BASF Dyes & Chemicals Ltd." in 1965. The name change suggests that the product portfolio had expanded to include chemicals as well as dyestuffs. Nevertheless, accomplishing the goal of 100% ownership over its activities in this area was still far away at this point in time, as it was only achieved

15 BASF A.G. – Unternehmensarchiv, "BASF-Gruppe: Entwicklung in Japan" ([Ludwigshafen: BASF A.G.], 1995), 2; Masami Yamada, Untitled Translation of a Report on the History of the Cooperation Between the Yamada Family and BASF, April 1973, No Call Number, BASF PB, BASF Corporate Archive, Ludwigshafen.

16 For an analysis of Mitsubishi Petrochemical and BASF's negotiations on the polyethylene licensing agreement, see: Kudo, "Die zweite Aufholjagd"; for the licensing agreements, see: Japan Economic Research Institute, *Kigyōbetsu Gaishi Dōnyū Sōran [Complete List of the Firms Importing Foreign Capital]: Jōjō Kigyōben 1975/6 [Listed Firms Edition 1975/6]* (Japan Economic Research Institute, 1976), various pages.

17 BASF A.G. – Unternehmensarchiv, "BASF-Gruppe," 2.

in 1973.¹⁸ It is unclear why it took BASF so long to establish its wholly owned subsidiary, but available internal documents indicate that foreign investment licensing and the public debates surrounding it gave German managers a sense of uncertainty.

BASF's Security Strategies

Shortly after German firms were allowed to undertake outward foreign investments in 1952, BASF started to work on how to enter Japan through Color Chemie. In fact, the company's sales director, Julius Overhoff, visited Japan in 1953 and wrote a lengthy report on the situation and the next steps to be taken.

At the time, the U.S. occupation had just been lifted and with waning American influence over the Japanese government, Overhoff predicted that protectionist policies – especially import restrictions – were likely to increase. For this reason, BASF's entry into the Japanese market needed to be completed as soon as possible.¹⁹ In other words, there was uncertainty of the government's future stance on inward foreign investment since the political environment was in flux.

Entering Japan through Color Chemie, and not with a new partner, was seen as the most promising strategy under the circumstances of the mid-1950s. According to Overhoff, the people at Color Chemie had – despite their shortcomings – “a certain understanding for our problems and our working method (*Arbeitsweise*)”. Choosing another partner, he argued, would require training new people which would make it necessary to provide lengthy education due to the Japanese “mentality”.²⁰

Similarly, he feared that a more protectionist post-occupation government would act to hinder business if Color Chemie were classified as a foreign controlled company. To avoid such classification, BASF's capital participation could not exceed 50%. In fact, Color Chemie already had a foreign investor, an American with ties to BASF, who needed to be pushed out of the company as soon as possible, due to the expected hostile policy toward foreigners.²¹ Overhoff himself suggested purchasing a 49% stake to ensure that the company would be regarded as Japanese-controlled, as long

18 BASF A.G. – Unternehmensarchiv, “BASF-Gruppe,” 2.

19 Julius Overhoff, Report entitled “Zur Lage in Japan und dem weiteren Vorgehen [On the Situation in Japan and How to Proceed]”, 30. October 1953, No Call Number, BASF PB, BASF Corporate Archive, Ludwigshafen.

20 Ibid.

21 Ibid.

as BASF obtained rights corresponding to 50% in important management decisions.²²

Moreover, to ensure that the Japanese character of the company was visible to outsiders, the business partners agreed that two of the five board members should be Japanese, including the president.²³ Apparently, this measure was taken after consulting with a Japanese business lawyer hired by Overhoff. The lawyer had explained that if there was parity between foreign and Japanese shares and directors, the authorities tended to classify such companies as foreign-controlled, as well.²⁴

The painstaking efforts to avoid potential bureaucratic interference speak to the ambiguity of the licensing system and the uncertainty of future industrial policy. The Japanese government did not have a clear policy of what kind of investments and what percentage of foreign participation in domestic firms it would allow. Moreover, there was the option of circumventing the licensing system by acquiring shares with Japanese yen instead of foreign currency, which was not subject to the validation requirement.²⁵ As it turned out, investments into pure trading firms were significantly less circumscribed than investments in manufacturing firms.²⁶ Yet, it seems Overhoff had not been aware of that, and it stands to reason that this is why he continuously opted to reduce the risk of interference by choosing a strategy that appeared as safe as possible.

The participation ratio and the filling of board positions were not the only challenges BASF faced in Japan; establishing control over Color Chemie once the investment was completed presented another hurdle. As a direct consequence of choosing an entry strategy that minimized expected government interference, BASF had to share control over major corporate decisions with the Japanese shareholders. Consequently, the Japanese shareholders had to be prevented from selling their shares to third parties. This problem was interconnected with the question of which legal form the company should assume: the corporation (*kabushiki kaisha*), limited liability company (*yūgen kaisha*), or limited partnership (*gōshi kaisha*).

22 Overhoff, Report entitled “Zur Lage in Japan und dem weiteren Vorgehen [On the Situation in Japan and How to Proceed]”, 30. October 1953.

23 Julius Overhoff, Note entitled “Grundsatzliche Vereinbarung [Basic Agreements]”, Attachment 1 to Overhoff’s 1953 Report, 30. October 1953, No Call Number, BASF PB, BASF Corporate Archive, Ludwigshafen.

24 Hisao Yanai, Note entitled “Antworten auf J. Overhoffs Fragen (2) [Responses to J. Overhoff’s Questions (2)]”, Attachment 4 to Overhoff’s 1953 Report, 27. October 1953, No Call Number, BASF PB, BASF Corporate Archive, Ludwigshafen.

25 We will come back to Yen-based investments, later.

26 See the validation lists: Japan Economic Research Institute, *Kigyōbetsu Gaishi Dōnyū Sōran [Complete List of the Firms Importing Foreign Capital]: Hijōjō Kigyōben 1979 [Unlisted Firms Edition 1979]* (Japan Economic Research Institute, 1979), various pages.

In a *kabushiki kaisha*, the shareholders could not be prevented from using their shares as they saw fit, which was detrimental in case the shareholders were to sell or bequeath their shares to third parties. The *yūgen kaisha* was not reputable enough to reflect “the standing of a BASF-subsiary” as it was used mainly by insignificant enterprises. Lastly, the *gōshi kaisha* was not appropriate either since it needed at least one proprietor who would be willing to assume unlimited liability, which the two founders of Color Chemie were assumed to be, but it was imperative to curtail their influence.²⁷

Additional Japanese investors should not be allowed into the company since it was expected they would influence the valuation of Color Chemie’s shares in their favor and likely oppose BASF’s business policy. To make sure no third parties entered the company, it was necessary to find a way to restrict the Japanese shareholders rights. This was to be accomplished through bilateral agreements in which the (prospective) shareholders granted BASF a right of first refusal in case they were about to sell or inherit shares. By the time Overhoff drafted his report, the Japanese shareholders had already agreed to such arrangements, which Overhoff explained by their heavy dependence on BASF.²⁸ With these agreements in place, BASF acquired a share of 48% in *kabushiki kaisha* Color Chemie in the mid-1950s.²⁹

The next important developments took place in the second half of the 1960s. In mid-1967, the Japanese government launched a liberalization program that gradually opened up all but a handful of sensitive industries to foreign investment and technology imports until 1976. Technology imports for the manufacture of dyestuffs and auxiliary chemicals were liberalized in 1968, while petrochemicals and computer-related technology were liberalized only in 1972 and 1975, respectively.³⁰ By that time, import restrictions had been largely lifted, as well.³¹

In the wake of the liberalization program, BASF started to plan for a consolidation of its dyestuff and chemicals business in Japan. This was necessary not least because domestic dyestuff makers successfully implemented measures to keep foreign competitors out of the market.³² Thereby,

27 Overhoff, Report entitled “Zur Lage in Japan und dem weiteren Vorgehen [On the Situation in Japan and How to Proceed]”, 30. October 1953.

28 Ibid.

29 Yamada, Untitled Translation of a Report on the History of the Cooperation Between the Yamada Family and BASF, April 1973.

30 Ralph Paprzycki and Kyoji Fukao, *Foreign Direct Investment in Japan: Multinationals’ Role in Growth and Globalization* (Cambridge University Press, 2008), 38–41; Dan F. Henderson, *Foreign Enterprise in Japan: Laws and Policies* (University of North Carolina Press, 1973), 232.

31 Ozaki, *The Control of Imports and Foreign Capital in Japan*, 50–51.

32 Correspondence from Bihr Pyzik to BDC, 4. July 1968, A.4.2.15/10, BASF PB, BASF Corporate Archive, Ludwigshafen.

domestic firms compensated for waning government control.³³ At the same time, BASF managers also sounded out the possibilities to cooperate with Japanese dyestuff manufacturers through different routes, including contract manufacturing, technology licensing, and joint ventures.³⁴

In the 1970s, the right of first refusal agreements concluded with the Japanese shareholders of Color Chemie in the early 1950s proved worthwhile. As two major shareholders passed away, their heirs offered their shares to BASF.³⁵ This weakening of the Japanese side in the company finally paved the way for a transformation of BASF Dyes & Chemicals Ltd. into a wholly owned subsidiary. In 1972, a plan was drafted to implement this transformation, which included raising BASF's stake to 80% and then acquiring the remaining 20% from the current Japanese president when he reached retirement age.³⁶

Moreover, the company, which had started out as a sales and marketing agency, was to assume new functions, including coordinating the entire business of BASF in Japan, and maintaining contacts with Japanese partners, customers, and government agencies. The cost of operating such a wholly owned subsidiary were justified by expectations of the tremendous business opportunities of intensified business in Japan.³⁷

This time, the share acquisition was discussed with government officials in advance. After an agreement had been reached with the Japanese shareholders, representatives of BASF visited MITI in November 1973. According to a report, MITI officials were rather candid in expressing their concerns that BASF's investment plans would have a massive impact on the Japanese dyestuff industry in the future. German representatives responded to such anxieties by listing the benefits of their increased presence in Japan, which would be a better supply of products, better service to Japanese

33 Mason made the same observation in his case studies of American foreign investment in Japan, see: Mason, *American Multinationals and Japan*, 200.

34 Diemer, Note on a Meeting held on 29.8.1968 in E100, 2. September 1968, A.4.2.15/2, BASF PB, BASF Corporate Archive, Ludwigshafen; Meyer, Note entitled "Gespräche mit japanischen Pigmentherstellern [Talks with Japanese Pigment Manufacturers]", 14. December 1970, A.4.2.15/10, BASF PB, BASF Corporate Archive, Ludwigshafen.

35 Correspondence from BASF Holding to Mr. Bockstedte, 24. May 1971, BASF PB, No Call Number, BASF Corporate Archive, Ludwigshafen.

36 Henkel, Note entitled "Neugestaltung unserer geschäftlichen Organisation in Japan [Reorganization of Our Business Organization in Japan]", 16. October 1972, No call number, BASF PB, BASF Corporate Archive, Ludwigshafen.

37 Henkel, Note entitled "Neugestaltung unserer geschäftlichen Organisation in Japan [Reorganization of Our Business Organization in Japan]", 16. October 1972; Glassen, Extract from Minutes of the Board Meeting on 24. October 1972, 24. October 1972, No Call Number, BASF PB, BASF Corporate Archive, Ludwigshafen.

customers, and a deepening of cooperation and knowledge exchange between the industries of both countries.³⁸

However, such assurances did not soothe Japanese worries. Hence, MITI officials made their validation of the share acquisition subject to two conditions. First, MITI wanted to survey the Japanese dyestuff industry to gauge its opinions on the establishment of a wholly owned BASF subsidiary. Second, the articles of incorporation of the new “BASF Japan Ltd.” needed to be revised. BASF planned to sell magnetic tapes for computer applications through its Japanese subsidiary and thus had included such activities as one of the purposes of the company in the articles. Since both investments and technology imports into the computer industry were not yet liberalized, MITI officials asked to either change the articles to read “audio/video tapes” instead of “magnetic tapes”, to specifically apply for approval of magnetic tape production, or to submit a written pledge that BASF Japan would not be importing and selling computer tapes until the computer industries had been formally liberalized.³⁹

Apparently, MITI officials threatened that if BASF was not willing to at least submit such a pledge, they would strictly screen any application for a special approval during which they would demand an additional explanation that the Japanese shareholders were not forced to sell their shares.⁴⁰ Hence, an application for special approval was not deemed desirable. Moreover, amending the articles of incorporation to accommodate MITI was not deemed feasible, as such a restriction in the articles was difficult to undo.⁴¹ The decision against a revision of the articles should be viewed in the light of BASF’s ill-fated strategy to build up the magnetic tape business as a central pillar of its portfolio, where the company sought to lead technologically in both products and production.⁴²

Furthermore, the government officials also required BASF to include a clause into their application that BASF Japan would not manufacture dyestuffs “for the time being”.⁴³ Apparently, the survey of the Japanese dyestuff industry had resulted in statements of major fears by local producers, which MITI officials accommodated. Nevertheless, for BASF, this was not

38 Correspondence from P. Hadrys to Sparte R 4 Leitung and Rechtsabteilung, 14. November 1973, No Call Number, BASF PB, BASF Corporate Archive, Ludwigshafen.

39 Ibid.

40 Ibid.

41 Ibid.

42 Werner Abelshauser et al., *German Industry and Global Enterprise: BASF: The History of a Company* (Cambridge University Press, 2003), 578–579, 586–587.

43 Correspondence from Klaus Cantzler to BASF, 21. November 1973, No Call Number, BASF PB, BASF Corporate Archive, Ludwigshafen.

decisive since local manufacturing could be accomplished via joint venture with a potential Japanese partner.⁴⁴

Around the same time, an article was published in a Japanese industry magazine that reported on both BASF and the Swiss chemical company Sandoz' investment plans in Japan. According to this article, BASF was preparing for local manufacturing, and it gave some insights into the German firm's sales plan. This information, and it was speculated, was released by MITI officials as the application for the validation of stock acquisition included BASF's sales plan. However, to appease dyestuff companies in Japan, it was proposed to officially announce that BASF had plans to produce dyestuffs locally only in a joint venture.⁴⁵

In this form, the government validated the application unofficially in December 1973. The former Japanese president of Badische Dyes and Chemicals Ltd. was made chairman, and a German was appointed as president. The rest of the board was composed of German directors.⁴⁶ With this, BASF had reached its goal, twenty years in the making, of a wholly owned subsidiary able to represent the company on a broad base in Japan.

To summarize, BASF's corporate strategy in Japan was, to a large degree, a response to the ambiguity and uncertainty inherent in Japan's industrial governance. This response is testament to a certain level of ambiguity in the institutional rules obtaining, in particular, as to the weight of individual validation criteria, such as foreign participation ratios, and the discretionary powers of government officials. This insight is based on the fact that the Germans made sure to avoid any semblance of Color Chemie being classified as a foreign-controlled firm by acquiring only 48%, accepting a minority of directors, and appointing a Japanese president. Hence, the security strategy can be summarized as avoiding risk in the beginning by preparing for a long-term and step-by-step takeover. Almost twenty years later, the security strategy appears as substantially similar as BASF managers minimized ambiguity and uncertainty by pledging not to manufacture and sell computer tapes and announcing not to independently manufacture dyestuffs. This way, they avoided additional government scrutiny.

Not all prospective foreign investors were capable of managing the political risk of Japan's industrial governance. Many avoided direct investments and opted for licensing, instead.⁴⁷ What distinguished BASF in the early 1950s was that they apparently were able and willing to incur the expenses

44 Correspondence from Klaus Cantzler to BASF, 21. November 1973, No Call Number, BASF PB, BASF Corporate Archive, Ludwigshafen.

45 Ibid.

46 Correspondence from Klaus Cantzler to ufok and Zentralabteilung Recht, 28. December 1973, No Call Number, BASF PB, BASF Corporate Archive, Ludwigshafen.

47 Mason, *American Multinationals and Japan*, 197-98.

for traveling to Japan and permanently station representatives there, which enabled them to gather information on business partners, the market, and the institutional environment.

Henkel's Entry into Japan

Henkel was and still is a major manufacturer of chemical-based consumer products such as washing detergents, adhesives, and shampoo. After WWII, Henkel's most prominent products included industrial cleaning agents, adhesives, and leather auxiliaries.⁴⁸

Henkel's strategy differed markedly from that of BASF. Instead of working with a Japanese partner, Henkel managers employed the assistance of a German trader for its initial steps. In 1954, this trader established the "West European Trading Co.," a sales company jointly owned by a Henkel subsidiary and by said trader. Like BASF, Henkel representatives saw potential in selling technology to Japanese firms to expand business, but unlike BASF, licensing activities remained limited.⁴⁹

Until the early 1970s, the company's management seems to have assigned comparatively little value to the Japanese market due to slacking sales.⁵⁰ Nevertheless, despite various obstacles, management decided to enter into a licensing relationship with a mid-sized Japanese chemical manufacturer named Hokusui Chemical Co., Ltd. (Hokusui) in 1963. Instead of licensing technology from abroad directly to the Japanese partner, headquarters opted to license it to West European Trading Co. This intermediary then entered into a licensing agreement with the Japanese partner, who manufactured Henkel products for sale through Henkel's subsidiary. It appears that the German management had a change of mind in the early 1970s. As interest in Japan grew, the cooperation with Hokusui Chemical intensified, culminating in the establishment of "Henkel Hokusui Co., Ltd.," a 50:50 joint venture, in 1974.⁵¹

Henkel's Security Strategy

At Henkel, the idea to establish a sales presence in Japan was concretized in 1952. One of the main questions discussed among stakeholders was whether to enter Japan in the form of a branch office, a limited company, or a corporation. Henkel's trusted man in Japan was a German businessman

48 Wilfried Feldenkirchen and Susanne Hilger, eds., *Menschen und Marken: 125 Jahre Henkel 1876 – 2001* (Henkel, 2001), 128–31.

49 Ibid., 380.

50 Ibid..

51 Ibid.

named Dr. W. Homberg, who was affiliated with various firms there. A Henkel delegation visiting Japan in 1952 was unable to fully comprehend his network of relationships but found he represented major German firms, was a manager of a Swiss trading company and likely a shareholder in a small Japanese trading firm. Moreover, he was also offering business services, independently. In the latter function, it seems he had already gained some experience in selling Henkel's industrial detergent in Japan in the early 1950s.⁵²

Henkel managers chose Homberg for two main reasons: he was willing to use one of his Japanese employees, a technician who had worked for *Farbenfabriken Bayer A.G.* before the war and who spoke fluent German and English, to sell Henkel products. In addition, he was able to sell significantly above the cost price.⁵³ Henkel did not handle the project directly but instead engaged its subsidiary *Detergenta*, a company incorporated in Liechtenstein.⁵⁴

Homberg advised *Detergenta* to start by setting up a sales branch and see if it was successful. If it was, a limited company or a corporation could be established, but Homberg pointed out that this would mean high taxes on and difficulties in repatriating profits.⁵⁵ *Detergenta* rejected the idea of setting up a branch because imports and sales would remain in the hands of independent Japanese traders, who would be able to pocket a large part of the profits.⁵⁶

For Homberg, the only real advantage of setting up a company would be the ability to reinvest accumulated profits. The repatriation of the principal and, to a certain extent, profits were possible if validation could be obtained when the company was established. However, such a validation, Homberg explained, was unlikely to be forthcoming as the Japanese government would only validate direct investments that it deemed beneficial to the Japanese economy. Such an assessment was unlikely because the new company would be a pure trading company and government officials viewed any foreign trader as unwanted competition.⁵⁷ *Detergenta* considered Homberg's arguments, but decided that the best way to enter Japan was to

52 Dr. K./Bt, Note concerning "Dr. W. Homberg [...]. Besprechungen in Tokyo am 2. und 3.10.1952", n.d., Acc. 385/1, Corporate Archive Henkel AG & Co. KGaA, Duesseldorf.

53 Ibid.

54 Correspondence from *Detergenta Investment Trust Registered to Dr. W. Homberg*, 4. August 1953, Acc. 271/202, Corporate Archive Henkel AG & Co. KGaA, Duesseldorf.

55 Correspondence from Dr. W. Homberg to Henkel & Cie, 31. January 1953, Acc. 271/202, Corporate Archive Henkel AG & Co. KGaA, Duesseldorf.

56 Correspondence from *Detergenta Investment Trust Registered to Dr. W. Homberg*, 19. February 1953, Acc. 385/1, Corporate Archive Henkel AG & Co. KGaA, Duesseldorf.

57 Correspondence from Dr. W. Homberg to *Detergenta Investment Trust Registered*, 11. March 1953, Acc. 271/202, Corporate Archive Henkel AG & Co. KGaA, Duesseldorf.

set up a local company to handle imports, consult customers and maintain direct contacts with both retailers and wholesalers.⁵⁸

According to information gathered by Homberg some time later, the government would allow the repatriation of the principal as well as of dividends without raising issues. The remittance of profits, however, would be basically impossible.⁵⁹ Moreover, Homberg consulted with a Japanese business lawyer who informed him that Japanese shareholders were not required in a limited company. Before setting up a limited company, it was essential to obtain the necessary import permits for industrial detergents, as the relevant government agency was investigating whether similar detergents could be manufactured in Japan.⁶⁰

While Detergenta agreed to the limited company, it rejected a proposal that Homberg pay in the capital and insisted that the initial capital be transferred from Liechtenstein. Detergenta's representatives argued that they had had bad experiences with such a method, as the government might raise issues with it later. Instead, it wanted Homberg to secure proper validation to enable future remittance of dividends. Detergenta asked Homberg to focus his attention on this point since it was crucial to the whole project of establishing a local company.⁶¹

However, after discussing the project with officials at the Bank of Japan in Tokyo, Homberg had to inform Detergenta that it was impossible to obtain validation for a capital investment because a remittance guarantee was only possible in cases where foreigners acquired shares in a Japanese company. Homberg had sent an employee and a Japanese lawyer to the Ministry of Finance to negotiate further steps.⁶² Commenting on the new developments, Detergenta agreed with Homberg's caution, stating that there was no haste and that it was preferable to prepare the establishment of the new company properly and obtain all the necessary licenses to avoid future problems.⁶³

According to a Japanese business lawyer, it was difficult to obtain such licenses because the government would not validate foreign trading firms

58 Correspondence from Detergenta Investment Trust Reg. to Dr. W. Homberg, 30. April 1953, Acc. 271/202, Corporate Archive Henkel AG & Co. KGaA, Duesseldorf.

59 Correspondence from Dr. W. Homberg to Detergenta Investment Trust Registered, 26. May 1953, Acc. 271/202, Corporate Archive Henkel AG & Co. KGaA, Duesseldorf.

60 Correspondence from Dr. W. Homberg to Detergenta Investment Trust Registered, 20. June 1953, Acc. 385/1, Corporate Archive Henkel AG & Co. KGaA, Duesseldorf.

61 Correspondence from Detergenta Investment Trust Registered to Dr. W. Homberg, 4. August 1953.

62 Correspondence from Dr. W. Homberg to Detergenta Investment Trust Registered, 27. August 1953, Acc. 385/1, Corporate Archive Henkel AG & Co. KGaA, Duesseldorf.

63 Correspondence from Detergenta Investment Trust Registered to Dr. W. Homberg, 26. September 1953, Acc. 385/1, Corporate Archive Henkel AG & Co. KGaA, Duesseldorf.

as this would run counter to its goals. Validation would only be granted if the investment was in a firm that manufactured locally with its own technology.⁶⁴

To solve the impasse, Homberg proposed that he would pay in the capital for the new company himself.⁶⁵ In this way, the licensing system could be avoided, as validation of stock acquisitions by foreigners was only necessary if they sought to pay for these shares in foreign currency.⁶⁶ The type of company established in this way was called a “Yen-based company”, and this investment route was open to foreigners until 1964, when all foreign share acquisitions were subjected to prior validation. However, the government severely restricted the remittance of earnings and equity capital by Yen-based companies. Only earnings from officially validated investments could be freely remitted. In other words, all profits had to be saved or reinvested in Japan.⁶⁷

Homberg also proposed reducing Detergenta’s share from the initially envisioned 95% to 80% and increasing his own from 5% to 20% to avoid being classified as a foreign-controlled company. As in the case of BASF, Detergenta and Homberg would conclude an agreement on a right of first refusal in case the latter was to sell or otherwise transfer his shares to third parties. Similarly, to BASF’s Overhoff, Homberg speculated that foreign investment and exchange laws would be softened in the future.⁶⁸

In the end, Detergenta agreed to the proposed capital ratio of 80% for itself.⁶⁹ In January 1954, the new *yūgen kaisha* was officially registered as “West-European Trading Co.”⁷⁰ Again, this speaks to the ambiguity of the licensing system. It was difficult and time-consuming to acquire information on what a potential application for validation would entail, but the expectation was that government officials might cause trouble.

Just as BASF, Henkel gradually expanded its business in Japan after its entry. In particular, Homberg negotiated licensing agreements with

64 Correspondence from Alexander Nagai to Walter Egge, 1. October 1953, Acc. 385/1, Corporate Archive Henkel AG & Co. KGaA, Duesseldorf.

65 Correspondence from Dr. W. Homberg zu Detergenta Investment Trust Registered, 12. November 1953, Acc. 385/1, Corporate Archive Henkel AG & Co. KGaA, Duesseldorf.

66 Correspondence from Alexander Nagai to Walter Egge, 1. October 1953.

67 Dennis J. Encarnation, *Rivals Beyond Trade: America Versus Japan in Global Competition*, (Cornell University Press, 1992), 50–51.

68 Correspondence from Dr. W. Homberg zu Detergenta Investment Trust Registered, 12. November 1953.

69 Correspondence from Detergenta Investment Trust Registered to Dr. W. Homberg, 10. December 1953, Acc. 271/202, Corporate Archive Henkel AG & Co KGaA, Duesseldorf.

70 Correspondence from Dr. W. Homberg to Detergenta Investment Trust Registered (Copy), 24. January 1954, Acc. 385/1, Corporate Archive Henkel AG & Co. KGaA, Duesseldorf.

Japanese firms in Henkel's name. Due to these licensing negotiations, the Henkel name had gained notoriety and thus, it was decided to rename the company "Nippon Henkel Chemical Co., Ltd." (Nippon Henkel) in 1957.⁷¹

Similar to BASF's case, Henkel observed the institutional environment for investments rather closely. In contrast to BASF, however, it did not engage in direct investments to commercialize its hit products. Instead, Henkel established a partnership with a medium-sized Japanese chemical manufacturer, Hokusui Chemical Co., Ltd. (Hokusui). It avoided close government scrutiny by applying for formal validation of a licensing contract between Henkel and Nippon Henkel in 1962 and then concluded a manufacturing and licensing agreement between Nippon Henkel and Hokusui in 1963. This way, Nippon Henkel could provide Hokusui with licenses and know-how but was not officially allowed to repatriate the licensing fees paid by Hokusui.⁷²

In 1965, first steps toward a joint venture between Henkel and Hokusui were taken but the two partners could not agree on the joint firm's export and sales rights.⁷³ This led the German party to propose an expansion of the existing cooperation in the form of a new and broader licensing agreement and a new cooperation agreement in 1967. These were implemented as before, by avoiding a direct contractual relationship between Henkel in Germany and Hokusui in Japan, utilizing Nippon Henkel as an intermediary.⁷⁴ Complaints about the government not allowing foreign majority stakes in local firms and the lengthy licensing procedure for technology imports with little hope of validation when the technology was not deemed valuable by government officials, indicate that the licensing system's ambiguity was a major factor in choosing this arrangement.⁷⁵

Despite efforts to come to an agreement, it took Henkel and Hokusui until 1974 to establish their joint venture.⁷⁶ In the early 1970s, however, political risk due to government action was not of much concern anymore because the industries where Henkel was working in had been liberalized, meaning that validations would be granted automatically. Nevertheless, Henkel's legal counsel recommended local manufacturing with a joint venture partner because the scale of business, as it was expected to grow, was

71 Correspondence from Dr. W. Homberg to Detergenta Investment Trust Registered, 17. April 1957, Acc. 385/1, Corporate Archive Henkel AG & Co. KGaA, Duesseldorf.

72 HI-Diversifikation, Briefing Paper for the Visit of Mr. Schrick in Duesseldorf, 9. July 1969, Acc. 271/207, Corporate Archive Henkel AG & Co. KGaA, Duesseldorf.

73 Ibid.

74 Ibid.

75 Dr. Hartmann, Report on Meetings with the Firm Hokusui, 25. July 1967, Acc. 271/202, Corporate Archive Henkel AG & Co. KGaA, Duesseldorf.

76 Feldenkirchen and Hilger, *Menschen und Marken*, 380.

far too large for a trading company and third-party manufacturing. Other German firms had opted for joint ventures despite being granted validations for local manufacturing.⁷⁷ Hence, choosing the joint venture route rather than a wholly owned manufacturing subsidiary was no longer a strategy to secure against political risk.

To summarize, Henkel's entry strategy, just like BASF's, was shaped to deal with political risk as the firm's representatives perceived it. In contrast to BASF, they chose not to deal with the ambiguity of the licensing system but to circumvent it until liberalization had cleared the way. The same strategy was chosen when deepening relations with their close partner, Hokusui, when it came to supplying them with technology. By doing so, Henkel accepted limitations regarding the remittance of profits. Moreover, it stands to reason that avoiding the licensing system was at least partially responsible for their non-committing attitude toward Japan since it allowed them to avoid clarifying their relationship to Hokusui.

Conclusion

This chapter demonstrated that German chemical MNEs' security measures to deal with political risk were significant factors in the development of their corporate strategies. The conditions created by initial measures had long-lasting effects; the solutions to initial risks generated new risks by limiting their ability to do business. The actual solutions of both firms consisted in minimizing risk by avoiding direct confrontation with government officials. BASF managers did so by applying for validation with minimum demands, Henkel managers by avoiding the licensing system altogether. Furthermore, the two case studies highlight the importance of commitment and the cultivation of business networks. Connections with local partners, both Japanese and German, proved invaluable in helping them navigate the foreign environment.

A second important aspect revealed by the case studies is that the political risks German managers faced were largely perceived risks. Since both firms' representatives avoided direct confrontation, there is no telling whether, for example, Color Chemie would have suffered in any way from government interference if BASF had acquired a 50% stake or whether an application for validation of a licensing contract between Henkel Germany and Hokusui Chemical would have actually met with difficulties. American firms meeting government officials head-on, were often rebuked, but also sometimes succeeded in obtaining significant concessions.⁷⁸

77 Henkel International GmbH/Winter, Protocoll Nr. 8/1972 entitled "Informationsgespräch HI am 3.5.1972 (Informational Meeting HI on 3.5.1972)", 4. May 1972, Acc. 271/207, Corporate Archive Henkel AG & Co KGaA, Duesseldorf.

78 Mason, *American Multinationals and Japan*, chapter 4.

These findings have two important implications: First, different sources of risk – in this case ambiguity and uncertainty – may be interrelated, leading to a compounding effect. Hence, future research on corporate risk management should integrate the interplay and impact of specific sources of risk into its analyses. And second, industrial policies influence corporate decision-making not just through their implementation, but also through the expectations market actors form around them. Future studies on the economic effects of industrial policy should take into account this mechanism of their potential efficacy.

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PART IV

Cooperation with
Communism – West
German Interests in the
People’s Republic of China



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10 Secured Legitimacy

Deutsch-Asiatische Bank's Strategy for Mitigating Political Risks in Chinese Business (1945–1957)

Yi Liu

Introduction

After four years of negotiations, a West German economic delegation composed of nine members gathered in Hong Kong on September 1 and 2, 1957, and then traveled by train to Beijing.¹ There, the delegation engaged in final discussions over payment issues with the China Council for the Promotion of International Trade (CCPIT). On September 27, the head of the German delegation, Otto Wolff von Amerongen, signed an agreement with Nan Hanchen 南汉宸², the director of the CCPIT.³

This agreement was not only the first semi-official accord between the Federal Republic of Germany and the People's Republic of China (PRC) but also a key achievement for the Deutsch-Asiatische Bank (DAB) in reinforcing its legitimacy in Sino-West German trade during the early Cold War, despite the constraints imposed by sanctions and embargoes. Following this, no similar agreements were signed until formal diplomatic relations resumed in 1972.

Economic factors underpinned much of the Cold War's political and strategic developments, yet Cold War studies have largely been dominated by the paradigm of East-West confrontation, which often assumes minimal bilateral cooperation. While some scholars have highlighted economic interactions, showing how economic incentives drove actors from opposing blocs to enhance bilateral trade despite political fluctuations and bloc

1 Sven Jüngerkes, *Diplomaten der Wirtschaft: Die Geschichte des Ost-Ausschusses der Deutschen Wirtschaft* (Fibre Verlag, 2012), 147–48.

2 Chinese terms and names are transliterated using the Hanyu Pinyin system, the official Romanization system of the PRC, unless otherwise noted. Whenever the original Chinese characters are available from the source, they will be provided alongside their first mention in the chapter.

3 Bundesbank, B 330-48522, 1957.10.05, Letter from Amerongen to Tuengeler.

alliances, research seldom focuses on enterprises as key actors.⁴ Although He Fei's recent study emphasizes the role of West German enterprises as significant economic players, there remains a notable gap in analyzing how multinational enterprises (MNEs) responded to political risks during the Cold War.⁵ These political risks, often manifested as embargoes and sanctions, represent forms of economic warfare, but discussions of MNE strategies to navigate such challenges remain insufficient. This oversight is not unique to Cold War studies or economic history, as Dai argues, the impact of warfare on MNEs in the field of International Business also requires more thorough exploration.⁶

Given the critical role of banking services in international trade and the central importance of payment negotiations in trade agreements, this chapter uses the DAB as a case study to investigate how MNEs mitigated political risks during the early Cold War. Specifically, it examines how the DAB overcame two major challenges. The first was an existential crisis triggered by its extensive liquidation in its key market, China, following World War II, alongside regime changes in Germany. The second involved navigating the complexities of Cold War dynamics, including the loss of market share due to embargoes. By addressing these challenges, the DAB shed new light on how MNEs adapted to geopolitical and economic pressures during this period.

This chapter first explains why the legitimacy-based view serves as an appropriate analytical tool for understanding political risks in this case. It traces the evolution of the DAB from establishment to post-World War II survival. The subsequent analysis focuses on the political risks the DAB encountered in Sino-West German trade during the early Cold War and explores the bank's coping mechanisms and their outcomes. The chapter concludes with findings drawn from this historical analysis.

4 To name a few: Giovanni Bernardini, "Principled Pragmatism: The Eastern Committee of German Economy and West German-Chinese Relations during the Early Cold War, 1949–1958," *Modern Asian Studies* 51, no. 1 (January 2017): 78–106; Valeria Zanier, "Forging New Meanings of Europe: The Cross-Ideological Logic of Western Business Interest Associations (BIAs) Promoting Trade with Mao's China," *Business History* 66, no. 6 (2022): 1580–1601. Jüngerkes, *Diplomaten der Wirtschaft*.

5 Fei He, *Die Wirtschaftsbeziehungen der BRD mit der VR China: 1949 bis zur chinesischen Reform- und Öffnungspolitik* (De Gruyter Oldenbourg, 2023).

6 Li Dai, "Caught in the middle: Multinational enterprise strategy in interstate warfare," *Competitiveness Review: An International Business Journal incorporating Journal of Global Competitiveness* 19, no. 5 (2009): 355–376.

Legitimacy-Based View as an Analytical Tool

Traditional approaches to understanding the political risk faced by MNEs rely on the Bargaining Power Approach (BPA) and the Political Institutions Approach (PIA). The BPA, initially developed by Vernon for the extractive sector, posits that MNE's bargaining power decreases over time as investments are made and local firms advance technologically. This approach, often applied to industries with significant fixed assets, emphasizes that political risk increases when MNEs lose the ability to counteract policy changes imposed by host governments.⁷

In addition to bargaining power, the PIA argues that constraints on a government's ability to unilaterally change policies reduce political risk for firms. Strong political checks and balances limit a government's capacity to alter policies to its advantage. Studies applying the PIA have primarily focused on sectors such as infrastructure and heavy manufacturing, where governmental involvement is significant.⁸

While both approaches offer valuable insights into political risk, they are largely tailored to physical industries and are less applicable to high-tech or service industries. Furthermore, according to Sottilotta, political risk is defined as the probability that the profitability of an investment will be negatively affected by unforeseen changes in the domestic or international political arena, or by governmental policy decisions impacting on the property rights of international investors. Importantly, this definition extends beyond host-country risks to include risks originating from an MNE's home country.⁹ However, existing studies employing the BPA and PIA frameworks have largely overlooked the role of home-country political risk.

As the research presented below demonstrates, the challenges the DAB faced in its Chinese business primarily stemmed from West Germany's political instability, its constrained sovereignty within the Western bloc, and the varying degrees of restrictions imposed by different authorities. In contrast, the planned economy of the PRC and its political priorities, which prevented the bank from re-entering the mainland market, did not significantly hinder its ability to operate with Chinese business partners. Given that the analytical framework inherently influences the perception of political risks, it is essential to consider an alternative approach that incorporates the risks related to domestic factors.

7 Raymond Vernon, *Sovereignty at Bay: The Multinational Spread of U.S. Enterprises* (Basic Books, 1971).

8 Witold J. Henisz, "The Institutional Environment for Multinational Investment." *Journal of Law, Economics, & Organization* 16, no. 2 (2000): 334–364.

9 Cecilia Emma Sottilotta, "Political Risk: Concepts, Definitions, Challenges," LUISS School of Government Working Paper Series, (2013): 6–7.

Stevens et al. proposed the Legitimacy-Based View (LBV) as a new conceptual lens to look into political risks in home countries and in an “complex and interconnected global economy”.¹⁰ This approach deconstructs the term “government,” expanding its scope to include both host and home countries, while recognizing that governments are not monolithic entities but consist of multiple actors and individuals with potentially conflicting views on an MNE’s legitimacy.¹¹

According to their work, political risks are shaped by how governments and societies evaluate a firm’s legitimacy and by how firms manage these perceptions to mitigate risks. The framework identifies three distinct types of legitimacy: pragmatic legitimacy, which focuses on practical stakeholder interests; moral legitimacy, centered on ethical standards; and cognitive legitimacy, which examines how well a firm’s activities align with societal norms and are accepted as necessary based on some take-for-granted cultural account.¹²

While Stevens et al. applied the LBV to high-tech companies like Google and Yahoo, Andrew Smith extended the framework to multinational banking by analyzing the strategies of the British bank HSBC during World War I.¹³ Though Smith generally supported the LBV, he criticized it for failing to “acknowledge the importance of wars and other military conflicts for their capacity to rapidly change perceptions of what types of transnational business behaviour are legitimate.”¹⁴

In his analysis of HSBC’s wartime strategies, Smith concludes that managers of MNEs may need to swiftly terminate relationships with firms and individuals associated with the enemy, at least insofar as the law permits, to preserve political capital during wartime. In a different context, this case study of the DAB reveals that, rather than severing ties, the bank adapted to geopolitical tensions to secure its position in the international landscape without overly conflicting with nationalism. The LBV indeed provides a flexible perspective to observe how MNEs can skillfully navigate international power dynamics during the Cold War.

From Liquidation to Liquidity: Reconstruction of the DAB

In 1889, thirteen major German financial institutions jointly established the Deutsch-Asiatische Bank, aiming to foster trade between Germany

10 Charles E. Stevens et al., “Toward a Legitimacy-Based View of Political Risk: The Case of Google and Yahoo in China,” *Strategic Management Journal* 37, no. 5 (2016): 945.

11 Ibid., 951.

12 Ibid., 948.

13 Andrew Smith, “A LBV perspective on political risk management in a multinational bank during the First World War,” *Multinational Business Review* 24, no. 1 (2016): 25–46.

14 Ibid., 27.

and China. Strategically headquartered in Shanghai, the bank commenced operations with a capital of five million Shanghai taels, equaling around 20 million reichsmark, of which 25% was initially paid in.¹⁵ The founding banks did not intend to commit too much but asked the Prussian government to participate in the elevation of the status of the bank. Unlike other foreign banks in China during the 19th century, as Moazzin argues—the DAB united the entire German high finance and represented the whole German capital market.¹⁶ During the following two decades, the DAB swiftly grew into a significant player in the region's financial landscape. The institution provided a wide range of financial services, including foreign exchange, trade financing, bond issuance for the Chinese government, and banknote issuance. The 1911 Revolution, which ended China's last imperial dynasty, the Qing dynasty, and established the Republic of China (ROC), did not jeopardize the bank's presence, because the newly formed regime required substantial financial support from banks. However, the outbreak of World War I led to a sharp decline in foreign trade and banking activities. Despite the DAB's efforts to leverage its financial resources to exert political influence and keep China out of the war, it failed to avoid liquidation, when China joined the Allies in 1917.¹⁷

By decree of the President of the Chinese Republic on September 15, 1919, the state of war between China and Germany was officially declared terminated.¹⁸ Notably, Germany reached an agreement with China in which it renounced all special rights, interests, and privileges in China and abandoned its claim to the Boxer Indemnity after the war. Surprisingly, the loss of extraterritoriality increased the moral legitimacy for German enterprises in China, as the Chinese side viewed German partners as superior to the earlier imperial powers.¹⁹

Meanwhile, the DAB resumed banking operations in Shanghai, Guangzhou, Hankou, Tianjin, and Beijing.²⁰ While the bank faced challenges

15 To give an example, the capital of the Deutsche Bank in 1888 was 75 million reichsmark. The main shareholders are the Disconto-Gesellschaft received 16.1%, the Deutsche Bank 11.1%, the Bleichroeder 11.1%, the Seehandlungsgesellschaft represents the Prussian government held 3.5%. See: Ghassan Moazzin, *Foreign Banks and Global Finance in Modern China* (Cambridge University Press, 2022), 51–52.

16 Moazzin, *Foreign Banks*, 51–54.

17 *Ibid.*, 262–63; Ingrid Bauert-Keetman, “Unternehmens-Chronik. Deutsch-Asiatische Bank, European Asian Bank, Deutsche Bank (Asia) 1889–1987” (Hamburg, April 1988), *Historisches Archiv der Deutschen Bank*.

18 Jingping Wu 吴景平. *Cong Jiaobao Beizhan Dao Keer Fanghua- Zhongde Guanxi* [从胶澳被占到科尔访华 – 中德关系 1861-1992] [*From Occupation of Kiautschou Bay to the Visit of Helmut Kohl: Sino-German Relations 1861-1992*]. (Fujian People's Publishing House, 1993), 119.

19 William C. Kirby, *Germany and Republican China* (Stanford University Press, 1984), 24.

20 HADB, DAB Annual Report, 1915–1927.

from trade disruptions and the instability of Chinese currency caused by endemic civil warfare, it also profited as a trade financier and credit provider in the lucrative arms market that the conflict created.²¹ Nevertheless, the persistent lack of national unification in China raised concerns for the DAB, prompting it to reduce its capital from 7.5 million to 4.5 million Shanghai taels in 1927.²² The outbreak of the Sino-Japanese War in 1937 brought severe consequences to business operations. The situation became increasingly precarious, as evidenced by the issuance of the DAB's last individual annual report in 1939. Despite these difficulties, the bank managed to survive until 1945, primarily due to limiting its business to merely handling documents and bills of exchange.²³

After World War II, the DAB faced severe liquidation in China as part of the ROC's policy to confiscate enemy properties. On September 27, 1945, the Bank of China (BoC) officially carried out the liquidation, resulting in the closure of all branches in China, loss of assets, and dismissal of most German employees in China.²⁴ In Germany, the DAB was left with virtually no assets, as its Berlin branch was taken over by the Soviet Union. By the end of 1945, the DAB's physical presence was reduced to a single building in Hamburg and a small team of employees.²⁵

With its capital and assets significantly diminished, and the political situation in China rapidly deteriorating, there was no possibility for the DAB to return to China after 1945. The country plunged into a full-scale civil war in 1947 between the Nationalist and Communist parties.²⁶ The Communist forces ultimately triumphed, establishing the People's Republic of China (PRC) in October 1949, while the Nationalist government retreated to Taiwan, claiming continuity as the ROC. The PRC, inheriting the ROC's anti-imperialist policies, sought to remove all foreign enterprises from

21 For example, the large part of arms procurement from Krupp AG was financed by the DAB. Kirby, *Germany and Republican China*, 17–18, 23–25; Wu, *From Occupation*, 124–25.

22 This period is known as the Warlord Era (1916–1928), during which the central government of the Republic of China struggled to assert control over the country, as military power was fragmented among regional factions. HADB, DAB Annual Report, 1915–1927.

23 TMA, J0161-1-002465, 1946, BoC Tianjin liquidated DAB; HADB, DAB Annual Reports from 1937 to 1952.

24 The Bank of China, authorized as the primary institution for foreign business during the Republican era, continued to fulfill this role in mainland China even after the regime change in 1949. TMA, J0161-1-002465, 1946, BoC Tianjin liquidated DAB.

25 During the interwar period, the DAB closed its branches in Yokohama and Kobe in 1927 and 1932, respectively, leaving its overseas branches exclusively in China. HADB, K07/027;I;05, 1946, Situation of DAB.

26 HAC-500/114803, 1953, DAB Business Report.

China.²⁷ Thus, even if the DAB had managed to avoid liquidation in 1945, the continuity of its operation in China was unfeasible.

Although the DAB's legitimacy in the host country vanished, it managed to maintain commercial ties with mainland China after 1945, as bilateral activities did not cease entirely.²⁸ The robust business ties were kept with the PRC, rather than the ROC in Taiwan, as the DAB's record indicated that the West German's business activity with Taiwan was "numerically of minor significance."²⁹ Furthermore, the PRC, with its vast territory and substantial demand for industrial products to support postwar reconstruction, presented a far more attractive market for West German enterprises.³⁰

The DAB's challenges of existence largely stemmed from its home country. After the division of East and West Germany became inevitable, the Hamburg branch was officially registered as a foreign trade bank in February 1949 to maintain operations.³¹ However, this registration was a temporary solution, since it alone proved insufficient to restore trust among stakeholders, as the bank's capital, approx. 1.15 million Deutsche Mark (DM), was too small to clear open transactions and meet pension obligations, which totalled more than two million DM.³²

Faced with these constraints, the bank's board considered establishing a new company with relatively small capital (approx. 0.3 million DM) to avoid obligations to previous creditors.³³ However, this approach would have severed the bank's historical ties and undermined trust among former clients and employees.

An alternative was to access the bank's only remaining overseas assets, held in Switzerland, amounting approx. six million Swiss Francs, which could easily cover the need.³⁴ According to Hermann Abs, the chairman of the DAB's supervisory board, it was necessary to prevent both the National and later the Communist Chinese from gaining access to these assets, as well as to block the Allies from seizing them through possession of the bank's shares. With German assets in Switzerland scheduled for release to

27 Peiyu Song 宋佩玉, "Cong Liyong Dao Qingli: Jianguo Chuqi Shanghai Waizi Yinhang Zhengce de Shanbian从利用到清理: 建国初上海外资银行政策的嬗变 [From Utilization to Liquidation: The Transmutation of Foreign Bank Policies in Shanghai at the Beginning of the Founding of the PRC]", *Xueshujie* 学术界 *ACADEMICS* 211, no. 12 (2015): 207.

28 HADB, DAB Annual Report 1940-1952.

29 HAC-500/114803, 1953.05, DAB Report.

30 HAC-500/114803, 1953.05, DAB Report.

31 HAC-500/11276_2001, 1951, Deutsch-Asiatische Bank. Wertpapierbereinigung.

32 HAC-500/11276_2001, 1953.06.09, Hamburger Anzeiger.

33 HADB-K07/031I;01, 1950.11.24, Meeting of supervisory board DAB.

34 HAC-500/11276_2001, 1952.11-12, Meeting about the Swiss assets.

German owners in 1954, it became urgent to clarify how these funds could be repatriated to the DAB in West Germany. After a year of legal deliberation in 1952, the final solution was to constitute the DAB as a German stock corporation with its registered office in the West German currency area. Therefore, the bank relocated its headquarters from Shanghai to Hamburg and converted its capital from Chinese Yuan to Deutsche Mark on June 9, 1953.³⁵

This strategic move fully restored the legal status of the DAB in the newly established Federal Republic of Germany. By 1954, the DAB successfully claimed its Swiss-held assets and fulfilled obligations such as employee pensions and creditor repayments.³⁶ This milestone not only reinforced the bank's pragmatic legitimacy among stakeholders but also restored its moral legitimacy by rebuilding confidence among clients and shareholders.

Political and Economic Challenges during the Cold War

However, the successful re-establishment in the home country did not automatically guarantee the smooth operation of the bank, especially amid the heightened tensions of the Cold War. Increasingly stringent regulations on East-West trade created challenges for financial institutions operating across the blocs.

As the economic sphere became central to the bipolar confrontation, the U.S. doctrine mandated that the "free world" refrain from trading strategic goods with adversaries. In 1949, the Coordinating Committee for Multilateral Export Controls (COCOM), a secretive body established in Paris, was formed to monitor East-West trade based on U.S.-influenced lists of strategic goods.³⁷ While U.S. support was crucial to Western Europe's recovery, the West European countries had no choice but to accept the cost of severing traditional economic ties with Eastern Europe and Soviet-influenced regions.³⁸ Following the Korean War in 1950, during which North and South Korea acted as proxies for the Soviet Union and the U.S., the lists of so-called "strategic goods" were further expanded as an instrument of economic warfare.³⁹ In 1952, after the PRC entered the Korean War, COCOM created a special section called CHINCOM (China

35 HADB-K07/011;I;02, 1953.03.25, Vorstandssitzung.

36 HADB-K07/011;I;02, 1954.07.01, Meeting Minutes of Supervisory Board.

37 Michael Mastanduno, *Economic Containment: Cocom and the Politics of East-West Trade* (Cornell University Press, 2020), 2.

38 Frank Cain, "The US-led Trade Embargo on China: The Origins of CHINCOM, 1947-52," *Journal of Strategic Studies* 18, no. 4 (December 1, 1995): 33-34.

39 *Ibid.*, 43.

Committee) to oversee trade with mainland China. CHINCOM imposed stricter controls than those applied to other socialist countries, with nearly double the number of restricted items, a policy known as the “China differential.”⁴⁰

West German enterprises showed neither wholehearted nor immediate cooperation with the “China differential”, but compliance ultimately proved unavoidable due to political and legal constraints. Strict controls were imposed not only on the movement of goods — regulated through licensing and shipment monitoring — but also on capital transactions. In 1951, the U.S. authorities required the West German commercial banks to immediately cease their involvement in Eastern trade.⁴¹ Otherwise, the corresponding amount in the dollar account of Bank deutscher Laender (the predecessor of the West German Central Bank/Bundesbank, shortly BdL), equivalent to their Chinese engagements, would be frozen in the U.S. The directive sparked widespread dissatisfaction within the German banking sector, with many questioning its legal basis.⁴² However, as West Germany had not yet fully gained its sovereignty and adhered to the policy of “Western integration,” West German banks had no choice but to comply with U.S. demands.⁴³

In 1953, the DAB expressed frustration that the share of Sino-West German trade had fallen to under 1% of China’s total trade volumes in the postwar period—a decline attributed solely to political constraints.⁴⁴ While China’s foreign trade was largely shaped by its alignment with the socialist bloc under the Sino-Soviet alliance, it never gave up seeking trade with West European countries to secure essential goods and also to counter-balance the U.S. influence.⁴⁵ The measures that significantly impacted the DAB were the replacement of Letter of Credits(L/Cs) with the Letter of Guarantee(L/Gs) and the employment of barter trade.⁴⁶

40 Zhikai Dong, *Responding to the Embargo: An Act of Modern Chinese History* (Social Sciences Literature Press, 2014), 22.

41 BArch, B 102/55353, 1951.07.30, Letter of BdL to HICOG.

42 BArch, B 102/6462, 1951.08.23, Payment transactions with Red-China.

43 The first chancellor of the Federal Republic Germany, Konrad Adenauer, coined the principle of “West integration” to emphasize the alignment with the Western bloc. The Federal Republic of Germany (FRG) gained full sovereignty on May 5, 1955, through the implementation of the Paris Agreements (1954). These agreements officially ended the Allied occupation of West Germany.

44 HAC-500/114803, 1953.05, Summary of DAB 1940-1952.

45 The main countermeasures were expanding trade with Eastern bloc countries by conducting barter trade through bilateral agreements. 66% of Chinese total export and 77% of total import went to and from the socialistic bloc.

46 TMA, X0091-Y-000614, 1951, Regulations of applying to participate in barter trade.

Firstly, both L/C and L/G are payment guarantee instruments, but they differ in whom they favor: L/Cs benefit sellers, while L/Gs favor buyers. L/Cs are more binding because the issuing bank (in this case, the BoC for Chinese importers)⁴⁷ must hold an equivalent deposit from the buyer and is obligated to make payments as long as the submitted documents comply with the agreed terms, regardless of what happens to the goods. In contrast, an L/G is issued by the seller's bank (such as the DAB) at the request of the seller to assure the buyer of compensation in the event of non-performance or default by the seller. L/Gs are more advantageous to buyers as they protect against project failures and eliminate the need for buyers to freeze foreign exchange in advance, as required for L/Cs.

Since the USD was the primary trade settlement currency and China's dollar deposits were frozen in the U.S., the ability of the BoC to issue L/Cs was largely restrained.⁴⁸ Therefore, Chinese trade agencies repeatedly urged West German firms to use L/Gs for payments and contracts.⁴⁹

However, the bank could be held liable for compensation in cases of seller default or even in the event of unjustified claims by the buyer. Even when transactions adhered to legal protocols, they were still vulnerable to being deemed illegitimate, resulting in financial losses and heightened domestic concerns about the banks' pragmatic legitimacy. Thus, providing L/Gs to "old China hands" – German companies with long-standing connections to the Chinese market as well as loyal customers of the DAB – posed significant challenges. These guarantees strained the bank's capital liquidity, leading to difficulties. Additionally, the DAB's reliance on other banks for discounting and financial support to address the problems caused disagreements among its main shareholders.⁵⁰

Besides, against the background of the East-West confrontation, media scrutiny of companies engaged in Sino-West German trade further exacerbated these concerns.⁵¹ This sensitivity of the geopolitical environment raised questions about the cognitive legitimacy of such transactions, undermining their broader societal acceptance.

Secondly, barter trade was actively promoted by the Chinese side to bypass the U.S. scrutiny of monetary transactions. West German sellers were required to ship their goods to China first, after which China would dispatch its own goods abroad for sale to offset the payments. Given that dollar

47 As mentioned before, the BoC was a department under the People's Bank of China (Chinese central bank) and served as the sole authorized Chinese bank responsible for all foreign trade prior to 1978.

48 Dong, *Responding to the Embargo*, 18.

49 TMA, X0091-Y-000614, 1951, Regulations.

50 HADB-V10/x0207, 1952.09.30, correspondent letters.

51 SAH, 613-4-15-5 Protokoll, 1951–1953.

transactions between China and Western Europe were strictly monitored, and amounts could be temporarily frozen if questioned by American authorities, barter trade became an appealing alternative for German banks.⁵² However, while monetary transactions were avoided on one front, German banks faced additional obstacles on another. They needed to extend loans to traders for export advances, while raw material-supplying countries frequently raised their prices after holding payment balances. Moreover, banks had to bear the time-related costs associated with selling and liquidating imported goods in West Germany.⁵³

Consequently, to mitigate the political risks in transactions, which the DAB's limited capital could not bear solely, the bank was forced to endure a decline in its Chinese business. While the overall volume of Sino-German trade increased to 255.6 million DM, the volume of direct export decreased to 20% in 1955, with only 10% direct import from the PRC, but a significant portion of goods being transshipped through third parties, such as East European countries, the UK and Hong Kong.⁵⁴

Why did British and Hong Kong firms manage to capture greater share of the trade with China? Firstly, after the establishment of the PRC in 1949, it did not immediately demand the return of the British crown colony but intended to take advantage of its unique geopolitical position. As a result, Hong Kong became an important entrepôt between the PRC and the “capitalist world”. For instance, the Hong Kong Maritime and Port Board officially prohibited ships from traveling to mainland China but generally adopted a tacit approval policy for vessels exporting goods to the mainland.⁵⁵ Additionally, Britain was not only less dependent on U.S. policies than West Germany but could also use Sterling pound as settlement currency, which included enterprises in Hong Kong as well.⁵⁶ In contrast, West Germany, as the U.S. showcase of the “freedom world” in Europe against the Soviet bloc, was required to stick to strict dollar-based regulations. Since many orders shifted to British pounds or Swiss francs, it is less wonder that German banks were less attractive for Chinese partners.

The political risks associated with losing market shares to competitors were painful for the DAB, as its Far East trade accounted for over 50% of its total financing volume.⁵⁷ German banks considered involving Swiss

52 On October 26, 1953, the FAZ newspaper reported that the United States had frozen the assets of a Belgian bank in the U.S. due to its dollar-based trade dealings with the Chinese Communist Party in Hong Kong. Bundesbank, B 330–48533.

53 Bundesbank, B330-48533, 1952.10.07, Vermerk VRC, Laendersachbearbeitung.

54 Bundesbank, B330-48533, 1956.01.04, Negotiations between Ost-Ausschuss and CNIEC.

55 Dong, *Responding to the Embargo*, 196–199.

56 British pounds can also be used for trade with Southeast Asia, which would enable the PRC to better cope with the embargo.

57 HADB, V10/x0207, Deutsch-Asiatische Banks' share.

banks as guarantors to facilitate a barter-based trade agreement. However, concerns arose that even neutral Swiss institutions might succumb to U.S. pressure.⁵⁸ Consequently, the proposal to involve third-party banks or companies gained little traction due to fears of information leaks and operational complications, such as British banks suspending payments or failing to secure Allied approval.⁵⁹

While the Federal Ministry of Economics sought to expand opportunities for West German foreign trade and the BdL prioritized safeguarding payment security, both institutions monitored the development of Sino-West German payment terms closely. However, neither was willing to consider signing an official trade agreement with the PRC owing to concerns over U.S. opposition.⁶⁰ As West German companies began independently seeking solutions and the East Berlin institutions attempted to act as intermediaries in the trade, the federal government was compelled to respond. Consequently, the payment ban on China was lifted, and barter trade with the PRC was allowed within the framework of the existing embargo agreement.⁶¹ Recognizing that stable trade settlements were the basis for direct trade, the DAB, actively engaged with the Federal Ministry of Economics and the BdL to regulate payment terms with China.

Trade Agreement as the Institutional Solution

In 1952, key German representatives from industry, financial institutions, and brokerage houses founded the Eastern Committee of the German Economy (Ost-Ausschuss der deutschen Wirtschaft, OA from now on) with the aim of fostering economic relations between West Germany and the socialist bloc.⁶² Committee members were nominated by industrial associations and chambers of commerce rather than representing individual enterprises. Although initially unaligned with the West German government, the OA was soon recognized by the Federal Ministry of Economics as the sole representative of the entire West German economy, thereby solidifying its quasi-official institutional status.⁶³

Meanwhile, the PRC also began seeking economic pathways into the “capitalist world”. On July 30, 1952, the China National Import and Export

58 BArch, B 102/7225, 1952.10.27, letter to Kroll.

59 Bundesbank, B330-48533, 1952.11.21, Approval from Bank of England for Sterling pounds transactions.

60 BArch, B 102/7225, 1952.05.15, OAV, The ban of payment with China.

61 HAC-500/114803, 1953, Deutsch-Asiatische Bank AG, Hamburg – Geschäftsberichtesammlung.

62 Bundesbank, B330-48533, 1952.10.13, Bundesanzeiger.

63 Jüngerkes, *Diplomaten der Wirtschaft*, 42–44.

Corporation (CNIEC) decided to establish a representative office in East Berlin to handle the company's overseas procurement operations. Shi Zhi Ang 石志昂 was appointed as the representative, making it the first overseas office of the CNIEC.⁶⁴ In Western Europe, the CNIEC not only sought to maintain connections with private economic groups but also aimed to reach trade agreements with representatives of other countries—preferably state-level agreements. However, in the absence of diplomatic recognition, semi-official agreements were mostly signed as a compromise.⁶⁵

On the German side, the representative for negotiations with the CNIEC was the China Work Group of the OA, which was established with 17 members, of whom “old China hands” played crucial roles, among them, the DAB was also represented.⁶⁶ On May 15, 1953, the first formal meeting between the China Work Group and the CNIEC delegation took place at the Johannishof Hotel in East Berlin, where both parties affirmed their commitment to strengthening trade ties.⁶⁷

Regarding payment terms, the DAB played a pivotal role in facilitating communication between West German banks and the China Work Group, ensuring alignment on both sides. A key figure of the DAB involved during the negotiations was Paul Witting, who was a member of the China Work Group and an experienced bank manager with extensive expertise in East Asian markets. He began his East Asian career in 1927 at DAB's Tianjin branch and worked in Asia until 1947. After returning to West Germany, he became a director at Norddeutsche Bank's Bremen branch in 1952. Later, he was elected managing director of the DAB, serving from 1953 to 1956.⁶⁸ Acting as a crucial intermediary, Witting enabled coordination among banks engaged in Chinese business, the China Work Group, and various federal authorities. The pragmatic legitimacy of the DAB in connecting both state and non-state actors is therefore strengthened.

Since the negotiations over payment terms first focused on a mutual settlement mechanism between the DAB and the BoC to backup barter trade. The core is that the two banks mutually granted credit limits when accepting bills of exchange. Under this framework, the DAB would run an account for the BoC to keep records of all bilateral barter trade and conduct

64 Dong, *Responding to the Embargo*, 247; Bundesbank, B 330-48522, 1954.10.06.

65 In June 1952, the first Sino-Japan unofficial trade agreement was signed, later in 1953, France signed a similar trade agreement with the PRC.

66 BArch, B 102/7225, 1954.07, Interview with Mr. Gross. Members such as representatives/mandates from Bayer AG, BASF, Melchers AG were already active in China before the WWII.

67 Bundesbank, B330-48533, 1953.05.15, The first formal meeting in Berlin.

68 Norddeutsche Bank was a successor of the Deutsche Bank during the 1950s. Bundesbank, B330-48533, 1952.10.16, Meeting about settling barter trade with Red-China.

settlements quarterly.⁶⁹ In this manner, the DAB would act as a “registry office/Evidenzstelle”, monitoring direct flows of Sino-West German trade. While the Federal Ministry of Economics and the BdL did not object to DAB’s appointed role, other German commercial banks also agreed with this decision.⁷⁰ It allowed the DAB as the “Deutsche Chinabank” to assume functions aligned with its historical role in Sino-German trade since its establishment in the 19th century and prevented potential competition among major banks represented on the board.⁷¹

In 1954, the OA formally inquired if the DAB would represent West Germany in signing a payment agreement with the BoC (Beijing) and the cap of credits it could provide.⁷² This decision once again bolstered the cognitive legitimacy of the DAB, indicating that it was recognized as the principal bank for Sino-West German trade.

However, this arrangement of barter trade was not free of risks. If German importers failed to maintain sufficient balances, e.g., if the goods were confiscated by the U.S. or Allied authorities, the BoC could become a creditor to the DAB. While the BoC was backed by state guarantees, the BdL could not insure against these risks due to legal constraints, which allowed guarantees only to central banks and institutions with formal agreements. Since neither the DAB nor its supporting banks could bear this risk alone, they sought the Hermes Guarantee — a government-backed export credit insurance — to enhance their pragmatic legitimacy.⁷³ To ensure maximum protection and secure refinancing, the DAB requested 100% guarantee coverage from Hermes.⁷⁴ Hermes only promised to grant 25 million DM and cover 85% of the export risks, leaving 15% (3.75 million) to be borne by the bank.⁷⁵ Given DAB’s provisions of 1.26 million DM, a decision was made on the supervisory board to form a banking consortium so as to provide reliable financing.⁷⁶ This consortium primarily invited banks that had participated in the pre-war “China Consortium” and included several new members who were involved in the Chinese business after World War

69 BArch, B 102/6462, 1953.12.29, Correspondent letters between the CNIEC and the OA.

70 Big commercial banks in West Germany were decentralized into several regional banks during the early postwar period according to the efforts made by the Alliance to weaken the German financial power.

71 BArch, B 102/7225, 1953.09.17, Ost-Ausschuss to Federal Ministry of Economics.

72 HADB, K07/011;I;02, 1954.09.14, Management Board Meeting Minutes.

73 Mark Jakob, “Between Entrepreneurial Risk-Taking and Reason of State: Export Credit Insurance in Germany and Britain during the Interwar Period,” in *Security and Insecurity in Business History: Case Studies in the Perception and Negotiation of Threats*, ed. Mark Jakob et al. (Nomos, 2021).

74 Bundesbank, B 330-48533, 1953.10.16, Discussions about Trade Agreement with China.

75 HADB, K07/011;I;02, 1954.12.11, Protokoll der Sitzung des Aufsichtsrats.

76 The equity capital was calculated based on the DAB Annual Report 1954.

II.⁷⁷ By utilizing both financial instruments, the pragmatic legitimacy of the bank is enhanced by ensuring safer operations with risks mitigated through state-backed guarantees and support from other banks.

Deutsche Mark as the Transactional Currency

As the negotiation progressed, the DAB proposed the use of DM in transactions with the PRC. With West Germany moving towards a more liberalized system and relaxing restrictions on foreign exchange on transactions with other countries, the DM became exchangeable for transferable British pounds. Although the majority of trade with China was still being routed through London, and mainly in pounds, where the BoC had maintained a branch for over a decade,⁷⁸ there was growing optimism that Sino-West German trade settlements could be conducted in DM.⁷⁹ This shift signaled progress towards a multilateral payment framework and, more importantly, opened opportunities for West German banks to consider providing trade loans to China and to better discount the documents in trade with China.

Probably drawing from his previous experience in China, Paul Witting thought the credit facilities could be attractive for the Chinese side and suggested granting the Chinese a loan of 25% of L/Cs opened by the BoC in Germany, with a 6 million DM loan ceiling.⁸⁰

However, progress stalled after CNIEC head Shi Zhi Ang's unexpected death in April 1955.⁸¹ During the following Berlin negotiations in July, the new Chinese representative, Ding Kejian 丁克坚, shifted focus to political aspects. He advocated for contract-dependent payment terms rather than uniform conditions, likely drawing from past experiences where individual German companies were more susceptible to stricter requirements. This stance contradicted the German aim for overarching framework conditions, leading to a negotiation impasse.⁸²

77 Participants were successor institutes of Deutsche Bank, Dresdner Bank, Commerzbank, and Berliner Handels-Gesellschaft, Bayerische Hypotheken- und Wechsel-Bank, Sal. Oppenheim & Cie, Norddeutsche Kreditbank. HADB, K07/011;I;02, 1954.09.14, Protokoll der Sitzung des Aufsichtsrats.

78 HADB, V10/x0207, 1954.06.09, Conversations in Geneva.

79 BArch, B 102/6462, 1954.08.24, Transferable Account Area.

80 HADB, K07/011;I;02, 1954.09.14, Protokoll der Sitzung des Aufsichtsrats. HADB, V01/0653, 1955.01.06, Norddeutsche Bank to Abs; HADB, K07/0311;01, 1955.01.05, Intention of building Deutsch-China-Konsortium.

81 Shi died in the Kashmir Princess incident, bombing of an Air India plane en route to the Bandung Conference, allegedly orchestrated by ROC agents targeting Chinese Premier Zhou Enlai. Zhou, however, escaped the attack by changing his travel plans.

82 BArch, B 102/6462, 1955.07.26, Meeting with the CNIEC.

While the West German side repeatedly emphasized the convertibility of DM, Ding viewed the currency more as a negotiation tactic. He initially refused to use it in July 1955, reserving it as a bargaining chip for later. In the subsequent Berlin negotiations in February 1956, he proposed accepting DM, contingent on a central bank agreement.⁸³ While he claimed to use this approach to boost bilateral trade and reduce third-country involvement in settlements, he showed little interest in taking any credit facilities that Witting suggested.⁸⁴ Ding's underlying motive should be to encourage West Germany's diplomatic recognition of the PRC, as central bank agreements typically imply diplomatic relations. This aligned with China's strategy of "promoting official relations through civil exchanges."⁸⁵

The transition from Shi to Ding illustrates a broader domestic shift in China's economic course, reoriented attention from leveraging commercial profits in "capitalist countries" to a more politically oriented approach. In 1956, the PRC completed the socialization of its economy, integrating the private sector into centrally managed companies.⁸⁶ As a result, the "old China hands" needed to adapt to the new state-controlled foreign trade system, where authorized Chinese trade companies oversaw all external trade operations.

However, the diplomatic rapprochement towards the PRC was not allowed in any form by West Germany, citing not only the alignment with the U.S. policies but also the Hallstein Doctrine since 1955.⁸⁷ Therefore, the categorical rejection of the central bank agreement stayed unchanged. After the OA reported the situation to Walter Hallstein, the State Secretary at the German Ministry of Foreign Affairs, the BdL offered a compromise through the enduring efforts by the DAB: opening an account for the Chinese central bank, People's Bank of China, through an exchange of letters, without lending provisions, which should serve as a way out of the gridlock.⁸⁸

In October of 1956, the China Work Group and the CNIEC held their last meeting in Berlin and agreed to open mutual accounts between the two central banks.⁸⁹ The final delegation to Beijing was led by the OA's

83 Bundesbank, B 330-48522, 1956.02.09-02.11, Meeting with the CNIEC in Berlin.

84 Bundesbank, B 330-48522, 1956.02.09-02.11, Meeting with the CNIEC in Berlin.

85 Dong, *Responding to the Embargo*, 233.

86 *Ibid.*, 164.

87 The Hallstein Doctrine was a West German foreign policy introduced in 1955 that refused to establish or maintain diplomatic relations with any country, except the Soviet Union, that recognized the German Democratic Republic (East Germany) as a sovereign state, aiming to isolate East Germany internationally during the Cold War.

88 Bundesbank, B 330-48522, 1956.07.18, Letter of Ministry of Foreign Affairs to BdL.

89 Bundesbank, B 330-48522, 1956.10.20, Note on Negotiations.

president, Otto Wolff von Amerongen, and comprised board members from the China Work Group.⁹⁰ The delegation's role was to represent the OA and overall West German economic interests, not to conduct specific business negotiations nor sign commercial transactions.⁹¹ While the German Foreign Ministry did not formally "consent" to the trip of the delegation to Beijing, it did financially support the trip and refrained from obstructing it, hoping to keep minimal media coverage.⁹² The closer the agreement was to being signed, the more complex it became to deal with the line between economic and political interests.

Upon arrival in Beijing, the German delegation faced delays as the Chinese side sought to extend their stay in Beijing until October 1, the Chinese National Day, to attach a diplomatic significance to the trade agreement.⁹³ One of the key negotiation points was again the central bank's recognition. However, Witting ensured that discussions remained within the commercial sector, avoiding involvement from the central bank to prevent the agreement from being deemed illegitimate.⁹⁴ The final compromise allowed central banks to open accounts through an exchange of letters rather than a formal agreement, with trade settled in DM or other mutually accepted currencies. Irrevocable L/Cs would be issued by commercial banks of both sides.⁹⁵

Following the agreement, the share of Sino-West German direct trade increased significantly, rising from 58% in 1957 to 75% in 1958.⁹⁶ Settlements in DM also grew to account for one-third of all transactions in the first half of the year. Moreover, more commercial banks began participating in the Sino-West German settlement business. During this period, the DAB's total discounted bills increased from 20.6 million DM in 1957 to 21.9 million DM.⁹⁷ This result demonstrates not only promising trade prospects but also substantial improvements in payment conditions.

90 Dr. Paul Witting, H. Köhler, Dr. H. Beutler, H. Hufnagel, R. Audouard, head of the China Work Group and D. E. Gross from the East Asian Association (Ostasiatischer Verein), along with the OA's general manager E. W. von Carnap and Wilhelm Strackerjan, a foreign trade expert.

91 Bundesbank, B 330-48522, 1957.06.22, CCPIT invited the AKC; 1957.08.30, OAV Rundschreiben Nr. 42/57.

92 Bundesbank, B 330-48522, 1957.08.22, Meeting before the trip of the Ost-Ausschuss.

93 Jüngerkes, *Diplomaten der Wirtschaft*, 148.

94 Bundesbank, B 330-48522, 1956.10.20, Vermerk, Verhandlungen; 1957.07.20, BdL to Witting.

95 Bundesbank, B 330-48522, 1957.10.05.

96 Bundesbank, B 330-48533, 1959.04.11, Vermerk.

97 HADB, DAB Annual Report 1958.

Conclusion

Having endured two liquidations during the World Wars, the DAB successfully normalized its business with the PRC and increased its share capital from 1.15 million DM in 1952 to 3 million DM by 1957.⁹⁸ This postwar revival was closely tied to the bank's ability to bolster its legitimacy among key stakeholders in its home markets, including shareholders, entrepreneurial clients, and West German authorities.

In the immediate postwar period, the DAB faced significant political risks stemming from the loss of assets and the ambiguity of its legal status due to regime changes in Germany. To secure its operations and protect the practical interests of employees, shareholders, and clients, the bank relocated its headquarters and capital to West Germany. By meeting obligations such as pensions and debts using overseas assets held in Switzerland, the DAB enhanced both its practical and moral legitimacy, demonstrating its commitment to its stakeholders.

During the early Cold War, the DAB encountered new political risks posed by embargoes and sanctions. In response, the bank consolidated the interests of German commercial banks engaged in Sino-German trade, leveraged the Hermes government-backed guarantee mechanism, and formed a banking consortium to address these challenges. This pragmatic strategy not only provided financial security but also strengthened its market trust. Furthermore, the banking consortium served as a continuation of the DAB's historical legacy, reinforcing its cognitive legitimacy as the "German China-Bank."

As the geopolitical environment grew more complex, the DAB also had to navigate conflicts between China's hidden diplomatic objectives and West Germany's foreign policy. By avoiding central bank-level agreements and focusing on promoting the Deutsche Mark as the transactional currency, the DAB maintained its operational security while decentralizing the payment system and mitigating the risks by improving the discounting conditions among West German banks.

The chapter highlights the shift in Sino-West German negotiations from a market-based payment system to a politically cautious institutional resolution. Given that sanctions and embargoes remain relevant tools in modern economic conflict, the case of the DAB offers valuable insights into how MNEs navigate political risks to facilitate cross-border economic cooperation.

98 HADB, DAB Annual Report 1940-1952; DAB Annual Report 1957.

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11 Balancing Opportunities and Risks

A Case Study of Sartorius' Approach to the Chinese Market, 1945–1995

Caetano Franz and Christian Kleinschmidt

11.1 Introduction

The People's Republic of China (PRC) is currently one of the most important economic partners of the Federal Republic of Germany, while Germany is amongst China's most important trading partners in Europe. These relations are primarily the result of China's partial and gradual economic opening to cooperation and foreign direct investments since the late 1970s – described by Geoffrey Jones as “the most spectacular change of the second phase of globalization.”¹ A decade later, the end of the Cold War fundamentally transformed Germany's foreign trade relations, positioning China, as the world's most populous country with a potentially huge market, alongside the former socialist states of Eastern Europe as a key focus for German companies. This foreign trade reorientation opened new opportunities for the German economy, which had been severely disrupted by the political climate 40 years earlier at the onset of the Cold War in 1949, although even then, West German companies saw China and Eastern Europe as important markets. The aim of many companies was to build on their foreign trade relations from the time before 1933 which had been interrupted by the National Socialist economic policy of autarky and the Second World War, and to enable a successful return of the West German economy to the global market.

While the PRC was seen as an opportunity for the West German economy at the beginning of our study period, the current situation since 2023 has led to a reassessment of the German government's China strategy. This reassessment has taken place in response to several developments in recent years, including aspects of Chinese dumping and aggressive export policies, the unsatisfactory human rights situation in China, the Taiwan problem,

1 Geoffrey Jones, “Origins and development of global business,” in *The Routledge Companion to the Makers of Global Business*, ed. Teresa da Silva Lopes et al. (Routledge, 2019), 27.

China's stance on the war in Ukraine regarding its relations with Russia, and related supply chain problems. In this context, risk factors in the course of Sino-German economic relations are increasingly coming to the fore in foreign trade discussions, which revolve around questions of de-risking, decoupling and increased economic resilience towards China as an economic power.² Although the mentioned developments above currently mean a new challenge, Sino-German economic relations have long been characterized by hope and risk or uncertainty during the Cold War period. In the case of economic relations with the PRC, this uncertainty resulted from the political framework conditions of the Cold War era, which, due to restrictive regulations such as politically motivated export restrictions, did not allow for reliable, long-term, predictable, and secure economic contacts.

While the establishment of new international economic organizations such as the Marshall Plan, the General Agreement on Tariffs and Trade (GATT), the International Monetary Fund (IMF) or the Organization for European Economic Cooperation (OEEC or the Organization for Economic Co-Operation and Development/OECD) from 1947 onwards was intended to guarantee economic stability and security for the Western world with the involvement of the West German economy, the establishment of the Coordination Committee on Multilateral Export Controls (CoCom) was intended to control and, if necessary, prevent economic contacts with the socialist states in the emerging Cold War.³ This was associated with considerable uncertainties, particularly for West German companies that wanted to resume their established pre-war economic contacts after the end of the war, including those with Eastern Europe and China.

Using Sartorius, nowadays a leading life science group and partner for biopharmaceutical research and industry, as a case study, we explore the evolution of business relations with China from the end of World War II to the turn of the millennium. We are interested in the role played by West German companies in their return to the world market after 1945 and the significance of the PRC within this context, particularly from the 1970s onwards. In doing so, we are breaking new ground, for although there has been a great deal of economic research on Sino-German economic relations in recent years, the perspective of business history, and especially empirical studies on companies since the 1970s, has remained distinctly underexplored. Fei He's comprehensive study of economic relations

2 Doris Gutting, *China + 1: De-Risking für deutsche Unternehmen - Südwestasiatische Länder als Standortergänzung zu China* (Springer Gabler, 2014), VII, 8–11.

3 Jürgen Bellers and Markus Porsche-Ludwig: *Außenwirtschaftspolitik der Bundesrepublik Deutschland 1950-2011: Ein Handbuch zu Vergangenheit und Gegenwart* (Lit Verlag Münster, 2011), 201–226; Jan-Otmar Hesse: *Exportweltmeister: Geschichte einer deutschen Obsession*, (Suhrkamp Verlag Berlin, 2023), 165–182.

between the Federal Republic of Germany and the PRC focuses on the various phases of this development between the 1950s and the end of the 1980s and shows that they were primarily shaped by the changing political framework.⁴ It does refer to West German companies in some places, but without explicitly adopting a business history perspective. This remains a desideratum, likely due to restricted access to archives, limited retention periods, and generally high barriers to entry.⁵ Notable exceptions, apart from business literature,⁶ include short essays on Volkswagen, individual book chapters on companies such as the SMS Group, and more non-academic commemorative publications on BASF and Deutsche Bank.⁷

In this analysis, we build on initial findings about Sartorius' business relations with the PRC, which are briefly mentioned in an overview of Sartorius' history from 1870 to 2020.⁸ In our text, we will evaluate archival sources in order to examine the beginnings of Sartorius' contacts with China after 1945, the company's interests and strategies, the knowledge, experiences and motives of the company's key players during the period under study, and consider these in the context of the company's internationalization and globalization strategies. We will also focus on the question of security, of risk perception and strategies at Sartorius. These play a special role against the backdrop of the political and military uncertainties of the Cold War. In the early 1950s, especially during the Korean War, this primarily concerned Western companies' contacts with Eastern Europe and China, which were considered a security risk by the Allies. From the

4 Fei He, *Die Wirtschaftsbeziehungen der BRD mit der VR China: 1949 bis zur chinesischen Reform- und Öffnungspolitik* (deGruyter, 2024).

5 Adam Frost, "Reframing Chinese Business History," *Business History Review* 96, (2022): 245–287.

6 Literature on German companies in China during the second phase of globalization exists mainly in the form of short case studies or field reports by managers as part of business management edited volumes from the 1990s and 2000s. These are usually categorized as best-practice literature or success factor research and are often separated from scientific findings. One exception is Ricardo Schäfer's dissertation, which offers a very broad overview with many details. However, the case studies do not do justice to a historical analysis, even if the title suggests it. Ricardo Schäfer, *Die historische Betrachtung von Markteintrittsstrategien deutscher Unternehmen in China* (Herbert Utz Verlag, 2008).

7 Manfred Grieger, "Volkswagen in China: Die Anfänge der Probemontage 1982 in dem heute größten Einzelmarkt," *Ferrum* 82, (2010): 55–66; Frank Bösch, *Zeitenwende 1979: Als die Welt von heute begann* (C.H.Beck, 2019); Gregor Schöllgen, *SMS: Ein deutscher Anlagenbauer in der Welt 1871-2021* (DVA, 2023); Werner Plumpe, *Deutsche Bank in China* (Piper Verlag GmbH, 2008); Michael Grabicki, *Eine lange Reise: The history of BASF in China from 1885 to today* (Hoffmann & Campe Verlag, 2015). Other exceptions are business management literature, which is usually available in the form of personal experience reports or as part of success factor research.

8 Hartmut Berghoff et al., *Sartorius 1870-1920* (Piper Verlag GmbH, 2020).

perspective of West German companies, this relates to political, military and currency risks in export transactions and know-how transfers, for which the companies sought appropriate, mostly state, security and guarantees. Finally, there are also questions of ‘liability of foreignness’, i.e., the unfamiliarity of companies with the economic, political and cultural uncertainties of China as a business partner.

In the course of our long-term analysis between 1945 and 1995, it will also be important to consider previous theories of international business relations. Since an internationalization process for a single market does not take place in isolation, it is important to first introduce the company and its broader internationalization efforts. This provides the necessary context to situate the case study within a larger framework.

11.2 Company foundation and internationalization pathways, 1870–1970

The founding of *Feinmechanische Werkstatt Florenz Sartorius* in 1870 coincided with the founding of the German Empire in 1871, which became a political, military and economic superpower in the following period of high industrialization. The case study of Sartorius shows that the company developed during this growth phase and at the same time benefited from the international orientation of the German economy in the first phase of globalization during the German Empire.⁹ The foundations for the global integration of the German economy were laid during this period, and, as the example of Sartorius shows, this also applies to small and medium-sized family businesses. The economic success of Sartorius on a national and international level and in the context of the first phase of globalization was interrupted by the First and Second World War. After 1945, the company tried to reconnect with international economic relations as part of its orientation towards the West.¹⁰

Sartorius benefited from this economic orientation toward the West in that Western European countries, North and South America, and South Africa were among the most important customers for Sartorius balances and membrane filters. While most sales were generated in West Germany in the first years after the war, the proportion of foreign sales increased sharply from 1950 onward. However, the goal of increasingly serving the Eastern European markets was hindered by Allied restrictions. From 1949 onward,

⁹ Hesse, *Exportweltmeister*, 29–54; Sebastian Conrad, *Globalisierung und Nation im Deutschen Kaiserreich* (Beck Verlag, 2006), 32–73.

¹⁰ See in more detail Berghoff and others, *Sartorius 1870-2020*, pp. 118–127.

this was particularly true of the CoCom export controls. The Coordinating Committee on Multilateral Export Controls served to control the export of Western technology to the states of the Eastern Bloc, which applied to both military and civilian products that could be used for military purposes. In addition to economic exchanges with the Soviet Union and Eastern European countries, trade with the PRC was also affected. In Fei He's account of Sino-German economic relations, this early phase appears as a kind of unofficial and informal contact. Those ranged from illegal trade relations in 1950, the first direct West German contact with the Chinese government two years later during the Korean War, the establishment of a China working group within the *Ostausschuss der Deutschen Wirtschaft* (West German foreign trade association for the promotion of relations with Eastern European and Asian countries), the prevention of an official rapprochement between the Federal Republic of Germany and China by the United States, and the proclamation of the "Hallstein Doctrine" (Doctrine named after State Secretary Hallstein, which stated that the establishment of diplomatic relations with the GDR would be considered an "unfriendly act" towards the Federal Republic and would be sanctioned) in 1956. The Hallstein Doctrine marked the Federal Republic's claim to sole representation as the legal successor to the German Reich. In this field of tension, the Federal Republic of Germany was regarded by China as an "unofficial economic partner" with which contacts were established at the level of large corporations such as Bayer and BASF, as well as with the medium-sized family business Sartorius. In the mid-1950s, the company's export department reported contacts with the USSR and other "Eastern bloc countries" as well as China, which had been established through "personal contacts with well-placed personalities."¹¹ This gives the impression that by maintaining these informal and uncertain business contacts during the difficult times of the Cold War, Sartorius aimed to keep open future opportunities for potential growth markets, even if they were initially of secondary importance in quantitative terms.

For China, West Germany remained, as Fei He puts it, a "semi-governmental trading partner."¹² Economic contacts with socialist countries were therefore still associated with considerable uncertainty for West German companies, with the People's Republic again playing a special role.

To mitigate these uncertainties, especially in the export business, the instrument of the *Hermes Guarantee* was introduced in the Weimar Republic. These are state guarantees that cover export transactions against

11 He, *Wirtschaftsbeziehungen*, 33–40, 93–95; Berghoff et al., *Sartorius*, 130–133.

12 He, *Wirtschaftsbeziehungen*, 136, 176; Berghoff et al., *Sartorius*, 134.

economic and political risks. Hermes credit insurance was renewed in 1949 after the foundation of the Federal Republic of Germany and played an important role in safeguarding foreign trade relations with the so-called developing countries and later with the Soviet Union – but not in the case of the PRC, despite its status as a “developing country.”¹³ While in the early 1960s federal guarantees were granted for transactions with the Soviet Union, this was ruled out in the case of China under American pressure.¹⁴ However, the Ostausschuss der Deutschen Wirtschaft under Otto Wolff von Amerongen saw this as discrimination against the Chinese economy and pushed for equal treatment of West German trade with China. Because of the Chinese trade deficit with West Germany, the German government saw no urgency to intervene and continued to withhold loans and guarantees. It was only after a major project by *Deutsche Maschinenbau-Aktiengesellschaft* (DEMAG) worth DM 730 million that the German government finally changed its mind and granted a Hermes credit guarantee of around DM 300 million. This had a signaling effect on Sino-German economic relations, with trade volume tripling in 1965.¹⁵ But it was not until the change in the political climate between the U.S. and the PRC at the end of the 1960s that a fundamental impact on Sino-German economic relations – also in the case of Sartorius – was felt, albeit with a time lag. Nevertheless, the policy of détente with the Soviet Union, the German Democratic Republic and the countries of Eastern Europe initially took priority in West Germany’s foreign and economic policy before a rapprochement with China took place at the beginning of the 1970s.¹⁶

However, after establishing sales subsidiaries in Europe and the U.S. in the 1970s, Sartorius took a significant step by setting up a production site in Puerto Rico in 1983. This step also marked a turning point in Sartorius’ corporate strategy, as the commitment in Puerto Rico was to serve as a springboard for conquering the U.S. market. This step ultimately provided

13 Hesse, *Exportweltmeister*, 151–154; Linda von Delhaes-Guenther, *Erfolgsfaktoren des westdeutschen Exports in den 1950er und 1960er Jahren* (Ardey-Verlag, 2003), 124–137. On the case study of the “developing country” Brazil and Hermes credit insurance, see Simone Breimhorst, *Exportsicherheit. Germany’s return to the world market and the “Causa Brasilien”* (Nomos Verlag, 2021).

14 The United States and its relations with China were also of great importance for Sino-German relations. On U.S.-Chinese relations during the Cold War, see Shu Guang Zhang, *Economic Cold War: America’s Embargo against China and the Sino-Soviet Alliance, 1949–1963* (Woodrow Wilson Center Press/Stanford University Press, 2001). Shu Guang Zhang, *Deterrence and Strategic Culture: Chinese-American Confrontations, 1949–1958* (Cornell University Press, 1992).

15 He, *Wirtschaftsbeziehungen*, 125–127.

16 *Ibid.*, 147–156.

the motivation for the company's further global commitment in East Asia and especially in China.¹⁷

For Sino-German economic relations, this was a time of normalization, stabilization, and relaxation. From the point of view of the West German economy and enterprises, the PRC and the Chinese market offered great opportunities for the future and created a kind of spirit of optimism. Diplomatic relations were established between the two countries in 1972, business delegations were exchanged, the first official trade agreement was signed in 1973, and trade was liberalized and intensified. The PRC was considered a “market of the future”.¹⁸ This also applied to Sartorius.

11.3 Sartorius in China: Navigating opportunities and risk management, 1975–1995

11.3.1 *Technogerma* 1975: Early preview on China's market potential and risks

One of the first high-profile platforms for nascent Sino-West German economic relations after the establishment of diplomatic relations but before the start of the “reform and opening-up” policy was the industrial exhibition “Technogerma” in Beijing in 1975. The name said it all: the exhibition served to showcase West Germany's industrial and technological potential, as had been the practice in the previous two decades for other markets with medium-term export potential.¹⁹ The composition of the exhibitors did not correspond to a cross-section of the economy, but – at the special request of the Chinese side – concentrated on manufacturers with a high level of technology, including many small and medium-sized enterprises (SMEs).²⁰ On a total net area of about 22,000 square meters, 243 West German companies presented their products and services to about 250,000 visitors. In addition, about 400 technical lectures and symposia were held, and exhibitors were able to hold 637 business talks with Chinese foreign-trade companies, often for the first time.²¹

17 Christian Kleinschmidt, “Springboard for the U.S. market: The example of Sartorius and the Puerto Rico Special Economic Zone”, *Zeitschrift für Unternehmensgeschichte/Journal of Business History* 67, no. 1 (2022): 1–20, <https://doi.org/10.1515/zug-2021-0013>.

18 He, *Wirtschaftsbeziehungen*, 230, 180, 197–218. On the development of Chinese capitalism, see Tobias ten Brink, *China's Capitalism: A paradoxical Route to economic Prosperity* (University of Pennsylvania Press, 2019), especially chapter 2.

19 “TECHNOGERMA, accessed July 26, 2025, www.auma.de/messelexikon/lexicon/T

20 RWWA, 175-32-2, Ergebnisbericht über die sechste u. letzte Sitzung des Komitees für die Technische Ausstellung der Bundesrepublik Deutschland in Peking 1975 am 14.11.1975 in München.

21 The organizer was the Federal Ministry of Economics (BMWi) in cooperation with the “Messe-Ausschuss der Deutschen Wirtschaft e. V.”, while the “Internationale Messe- und

Based on these key figures and an exhibitor survey, Technogerma was rated as a success by the organizing committee as well as from a Chinese, German and international perspective, and even as a “masterpiece” from an organizational point of view.²² In addition to the unique intercultural exchange, the Chinese visitors were given an unprecedented insight into the economic performance portfolio of the Federal Republic of Germany. The hosts were particularly surprised by the high technological level of the SMEs.²³ Sartorius was one of these SMEs. From September 5 to 18, two employees presented electronic laboratory balances and systems for dust measurement, sterile filtration, and ultrafiltration on a 30-square-meter booth.²⁴

After Technogerma, one of the two export managers described his impressions to the local newspaper *Göttinger Tageblatt*. In contrast to the generally positive press reaction, this remarkably open interview offers a different perspective: under the headline “Chinese don’t want to buy equipment, they want to copy it”, the export manager exaggeratedly described Technogerma as “a PR show by the Federal Republic of Germany in Beijing – a political gesture by the Government [...] for which the industry paid dearly”. In comparison to conventional trade fairs, there was a lack of buying interest, and the foreign-trade companies were only interested in know-how, even in the most trivial design details.²⁵ This realization was sobering for the technology and export-oriented SME. Faced with fierce international competition and declining export business, the company had hoped for short-term sales success in a new market but instead found itself

Ausstellungs GmbH (IMAG) was commissioned with the implementation.” The selection of visitors was exclusively in the hands of the China Council for the Promotion of International Trade (CCPIT). Rolf Audouard, “Die Technogerma Peking 1975,” in *Wirtschaftspartner China: Analysen, Daten, Dokumente, Hintergründe*, ed. Institut für Auslandsbeziehungen/Institut für Asienkunde (1976), 101 et seq.; Anonymous, “Chinas Sorgen um Europas Schwäche,” *Frankfurter Allgemeine Zeitung*, September 20, 1975; He, *Wirtschaftsbeziehungen*, 215.

22 Horst Kerlikowsky, “Weltweit Ausstellungen für Deutschland,” *Frankfurter Allgemeine Zeitung*, December 6, 1976. With regard to the exhibitor survey, Fei He speaks of 90% satisfaction, which, however, does not refer to the 243 participating companies, but only to the 144 questionnaire returns. He, *Wirtschaftsbeziehungen*, 215.

23 RWWA, 175-32-2, Ergebnisbericht über die sechste u. letzte Sitzung des Komitees für die Technische Ausstellung der Bundesrepublik Deutschland in Peking 1975 am 14.11.1975 in München.

24 SArch, Int 4/1 Ko 21, Besprechungsprotokoll Industriausstellung der BRD in Peking, 17.1.1975.

25 The following paragraph refers to: SArch, Peo 1/1 B 7, Jahrband des Chefsekretariats, vol. 7 (1973–1975), 167.

confronted with the risk of product piracy.²⁶ This explains the undiplomatic choice of words, unimaginable from today's public relations perspective, which did not go unnoticed. The secretary of Managing Director and owner Horst Sartorius noted that although the interview illustrated the dangers and risks of "business with the East", the publication of these thoughts of course entailed inconveniences – unfortunately without explaining them in detail.

Rolf Audouard, co-organizer of Technogerma and Managing Director of the China working group in the Ostausschuss der Deutschen Wirtschaft, admitted in an article about the trade fair in an edited volume on "China as Business Partner" that the criticism was shared by other companies, although it was not mentioned in the official report of the organizing committee. According to Audouard, it should have been clear to every exhibitor that the focus was on creating a basis for Sino-German economic relations, not on individual sales success. In this sense, Technogerma was an investment in the unknown, but it offered many smaller companies in particular, a unique opportunity to attract attention in China.²⁷ Despite all the criticism, the Sartorius export manager also had this insight, which led to a future-oriented end to the interview: "The market exists. When it will be receptive is another question. [...] In the long run, this investment will certainly pay off."²⁸

Since the 1950s, Sartorius had worked the Chinese market passively and irregularly, depending on the political situation, through renowned trading companies such as Carlowitz & Co. and Jebesen & Co. However, because of the political thaw, Technogerma made the first direct contacts possible. As the example shows, this was an ambivalent experience for Sartorius, which already anticipated the fundamental dilemma of market development in the coming decades: the trade-off between the central security risk of an uncontrolled outflow of know-how and the potential of an untapped market that had been largely cut off from outside knowledge for decades.

11.3.2 Market and research proximity as a gateway: From initial market engagement to the establishment of a subsidiary, 1980–1989

In June 1981, for the first time since the beginning of China's opening-up policy, the topic of "China" appeared on the agenda of a management meeting. In line with the Uppsala typology, the starting point of

26 SArch, Peo 1/1 B 7, Jahrband des Chefsekretariats, vol. 7 (1973–1975), 140 et seq., 148.

The self-formulated motto describing the economic development for Sartorius in 1975 was "Waiting for better times."

27 Audouard, "Die Technogerma Peking 1975," 102–104.

28 SArch, Peo 1/1 B 7, Jahrband des Chefsekretariats, Bd. 7 (1973–1975), 167.

internationalization can be located in the network, for example, at Sartorius, when the Sales Director recommended taking latest information from Carl Zeiss into account regarding market exploration.²⁹ Carl Zeiss, Oberkochen, was relevant for Sartorius in China because its subsidiary Carl Zeiss Far East Co. Ltd. (CZFE), founded in Hong Kong in 1978, had been the official representative of Sartorius in the Chinese market since 1980. In addition to the common affiliation in the precision mechanical and optical industries and personal contacts at the highest level, Sartorius had already cooperated with Zeiss in Japan, Central and South America, and South Africa.³⁰

Regarding the responsibilities in China and Hong Kong, Sartorius and CZFE made a clear distinction between operational and strategic activities. CZFE was responsible for the operational business, bought and sold on its own account, employed a product manager exclusively for Sartorius, took care of advertising and customer service, attended trade fairs, and participated in tenders on behalf of Sartorius. Starting in 1982, Sartorius managers also traveled to China to establish contacts and negotiate technical cooperation and know-how transfer. In these strategic projects, CZFE played only a supporting and mediating role.³¹

When Sartorius intensified business activities in China in the 1980s, a country which was largely closed off to foreign business transactions, the uncertainty resulting from the liability of foreignness – the specific unfamiliarity with the economic, political and cultural circumstances – was enormous.³² There were no best-practice examples to guide the way. Institutional structures and practical information services were still limited in 1984, especially for SMEs without sufficient financial and political capital.³³ “We

29 SArch, Boa 1/1 A 2, Protokoll der GL-Sitzung vom 3.6.1981; Jan Johanson and Jan-Erik Vahlne, “The Uppsala Internationalization Process Model Revisited: From Liability of Foreignness to Liability of Outsidership,” *Journal of International Business Studies* 40, no. 9 (2009), p. 1425.

30 SArch, Boa 2/2 A 1, Aktennotiz Gespräch zwischen Herrn Dr. Skoludek, Herrn Sartorius und Herrn Reiche am 18.4.1980 in Stuttgart, 23.4.1980.

31 SArch, Int 4/1 A 2, Reisebericht Hongkong, Peking, Shanghai, 7.4. bis 21.4.1984, Knothe/Schmeißer.

32 Srilata Zaheer, “Overcoming the Liability of Foreignness,” *The Academy of Management Journal* 38, no. 2 (1995): 342 et seq.; Jan Johanson and Jan-Erik Vahlne, “The Internationalization Process of the Firm: a Model of Knowledge Development and Increasing Foreign Market Commitments,” *Journal of International Business Studies* 8, no. 1 (1977): 24–26. A concise summary can be found in Kutschker and Schmid, *Internationales Management*, 464 et seq.

33 SArch, Int 4/1 A 3, Reisebericht “Arbeitskreis China”, 8.11.1984, Pytlík. For example, it was not until November 1984 that the Hanover-Hildesheim Chamber of Industry and Commerce, with the support of the Lower Saxony Ministry of Science and the Ost-Ausschuss der Deutschen Wirtschaft, held its first meeting on the possible establishment of a China working group. See also the quote from the German Embassy. It speaks for itself: “Despite the mutual desire to involve the technologically often very advanced and

stumbled into it,” recalls Dr. Holger Schmeißer, then Sales Director, of his first trip to China in 1984 with Erich Knothe, Technical Director, which they “prepared” for at short notice with the help of a Langenscheidt dictionary and airline brochures. As mentioned above, the limited China business had previously been conducted mainly by external trading companies and was therefore regarded as an “exotic sideshow” by the Sartorius managers at that time.³⁴ Initial experience had to be gained in a context-specific manner, for which business trips were an indispensable tool, as evidenced by four detailed travel reports from April and May 1984.³⁵ They were essential to establish and maintain contacts, inspect local factories, monitor CZFE’s external representation, and gather general information. Discussions with local manufacturers and foreign-trade companies revealed a high demand for electronic balances in China, a market dominated by mechanical balances. This represented a significant opportunity for Sartorius because, in addition to its international reputation, the company had already converted its production to electronic balances in the 1970s.

In November 1984, several business trips and initial cooperation negotiations led to a contract between Sartorius and a Beijing company and its superior institutions for the transfer of know-how for an electronic balance model.³⁶ The contract covered technical assistance in setting up production and the acquisition of know-how for the “development, design, assembly, testing, and sale” of the balances. While the balances manufactured under the license had to be sold in China within two years, the Chinese partner could then use the know-how and technical documentation themselves. This was indeed a new experience for Sartorius, as a complete system had never before been handed over: “Our owners (Mr. Horst Sartorius/Mr. Dr. Chr. Sartorius) are very satisfied with the result achieved, although I do not want to hide the fact that this is of course a completely new situation for us, as it was not usual to transfer KNOW HOW to the extent provided for in the contract.”³⁷

particularly flexible medium-sized German industry in bilateral business cooperation, both the first bridge-building and the subsequent maintenance of business relations pose almost insolvable problems for them.” RWWA, 175-51-3, Deutsche Botschaft in Peking, Vermerk betr. Industrielle Kooperation mit der Volksrepublik China, 21.12.1984.

34 Dr. Holger Schmeißer, interview by Franz Caetano, December 1, 2021.

35 The following section refers to: SArch, Int 4/1 A 2, Reisebericht Hongkong, Peking, Shanghai, 7.4. bis 21.4.1984, Knothe/Schmeißer; *ibid.* Reisebericht Shanghai, 7.4. bis 21.4.1984, Knothe/Schmeißer; *ibid.* Reisebericht Carl Zeiss Far East Co. Ltd., 6.5 bis 8.5.1984, Trümper; Int 4/1 A 4 Reisebericht Beijing, 10.4. bis 15.4.1984, Knothe/Schmeißer.

36 SArch, Int 4/1 A 1, Know-how-Vertrag zum Transfer der elektronischen Waage 1205 MP, 30.11.1984.

37 SArch, Int 4/1 A 3, Brief Knothe an Huang, 19.12.1984 [Hervorhebung im Original].

Why did Sartorius decide to enter the contract when there were obvious concerns? According to John H. Dunning's OLI paradigm,³⁸ a license or know-how agreement is chosen when there are only ownership advantages that can be better exploited by third parties. This means that there are no internalization benefits. This was the case with Sartorius, as the balance model in question no longer met the company's latest high-tech standards. But it was advanced for the Chinese market, which was still mechanically oriented and to which the cooperation partner had access. Thus, it was an entry-level business with a calculable risk to build trust and, if successful, to gain more direct market access in the medium term through follow-up cooperations.³⁹

However, this did not happen. Sartorius was confronted for the first time with the risks of political directives as contracts were reviewed due to the sharp decline in the PRC's foreign exchange reserves in 1985.⁴⁰ Ultimately, the project collapsed in the spring of 1986 because the original foreign exchange allocation from the Chinese side was measured in U.S. dollars, while the contract currency was in Deutsche Marks. The devaluation of the dollar against the Deutsche Mark between 1984 and 1986 led to an enormous increase in the financing requirements, and Sartorius had already "exceeded the rational-economic limit" after a concession in 1985.⁴¹ The disappointment at this setback was huge: considerable resources had been spent on travel, training preparation, and warehousing for the entire project. In addition, there were high opportunity costs, as other international activities were neglected due to the commitment of management capacity.⁴² A handwritten exchange between Christoph Sartorius and Erich Knothe in May 1986 about further cooperation projects in China makes this clear: "Please do not invest any time in China projects... Unfortunately, completely useless, as the policy in the PRC has changed."⁴³

38 John H. Dunning and Sarianna M. Lundan, *Multinational Enterprises and the Global Economy* (Edward Elgar Publishing, 2008), 100–104; Hartmut Berghoff, *Moderne Unternehmensgeschichte: Eine themen- und theorieorientierte Einführung*, 2nd ed. (De Gruyter, 2016), 132 et seq.

39 SArch, Int 4/1 A 3, Brief Knothe an Huang, 15.2.1985.

40 Barry Naughton, *The Chinese Economy: Transitions and Growth* (MIT Press, 2007), 404 et seq.; Anonymous, "Mehr Augenmaß beim China-Handel," *Frankfurter Allgemeine Zeitung*, August, 9, 1985.

41 SArch, Int 4/1 A 5, Aktennotiz Dr. Schmeißer bzgl. Zwischenbericht Herr Metal aus Peking, 20.1.1986.; *ibid.*, Int 4/1 A 5, Telex Knothe an BIIC/BEIEC/BOIF, 20.1.1986; *ibid.* Int 4/1 A 5, Telex Knothe an Luo Dong, 7.2.1986.

42 SArch, Int 4/1 A 5, Telex Knothe/Schmeißer an BEIEC, 29.4.1986; *ebd.*, Int 4/1 A 3, Brief Knothe an Huang vom 1.4.1986.

43 SArch, Int 4/1 A 3, Handschriftlicher Vermerk Dr. Sartorius vom 11.5.1986 auf: Angebot Filterfertigung China, 3.2.1986, Knothe.

Remarkably, despite this setback, Erich Knothe continued to invest time, because he was deeply impressed by the dynamics, mentality, and potential of the PRC, which he had experienced during his trip in 1984.⁴⁴ A decisive step was taken at the beginning of 1986 when, on his initiative, an internal market manager for China, Johann Metal, was appointed in addition to the external representative CZFE. He showed a high degree of intrinsic motivation to gather information and prepare recommendations for action for the headquarters in Göttingen, as well as to network, as evidenced by his extensive travel reports.⁴⁵ Although the cooperation with CZFE in the early 1980s had been crucial to compensate for the lack of market knowledge and resources, Metal now recommended the establishment of its own subsidiary in Hong Kong. He also estimated that real market penetration would only be possible through cooperation, such as a joint venture. However, considering recent unsuccessful efforts and management directives, a joint venture was not feasible – apart from the general reservations about joint ventures at that time, as Erich Knothe's quote illustrates: "We are faced with the question of buying into China, i.e., enabling China to manufacture balances of our qualification in its own country."⁴⁶

According to the mechanism of the Uppsala typology, direct participation in market activities and information flow proved crucial for creating and seizing opportunities.⁴⁷ During a visit to the State Bureau of Metrology in Beijing, Johann Metal learned that, in connection with the new calibration law supported by the German authorities, there was a fundamental interest to cooperate with Sartorius in the area of customer service.⁴⁸ As early as 1979, the German Federal Ministry of Economics and the State Bureau of Metrology had concluded an agreement on scientific and technical cooperation, which was extended for the first time in 1984. The most important partners were the National Institute of Metrology in Beijing (NIM) and the Physikalisch-Technische Bundesanstalt (PTB), the national metrology institute in Braunschweig and Berlin.⁴⁹ Through the influence of

44 Dr. Holger Schmeißer, interview by Franz Caetano December 1, 2021.

45 SArch, Int 4/1 A 3, Reisebericht China, Hongkong vom 21.7.86 bis 22.8.86, Metal.

46 SArch, Int 4/1 A 3, Notiz Knothe bzgl. China-Aktivitäten des Herrn Metal an Herrn Schmidt vom 6.10.1986.

47 Johanson and Vahlne, "Uppsala model revisited," 1423–1425.

48 SArch, Int 4/1 A 3, Reisebericht China, Hongkong vom 21.7.86 bis 22.8.86, Metal.

49 RWWA, 175-44-2, Bericht Deutsch-chinesische Zusammenarbeit im Metrologiebereich, 28.7.1980, BMWi; Konrad Herrmann, "Über die Entwicklung der wissenschaftlich-technischen Zusammenarbeit zwischen China und Deutschland auf dem Gebiet der Metrologie," in *Kontinuität und Umbruch in China*, ed. Philipp Mahlting and Eva Sternfeld (Springer VS, 2014), 184. Sartorius has been in contact with the PTB, which was founded in 1887 as the Physikalisch-Technische Reichsanstalt, since its beginnings, and over the decades, this contact has developed into a partnership that goes far beyond mere technical approval. SArch, Mar 1/2 B 69, Prospekte und Informationen 1995 Teil II

Prof. Dr. Manfred Kochsiek, Head of Metrological Development Assistance since 1985 and later Vice President of the PTB, Sartorius succeeded in establishing contact with Dr. Zhao Kegong, Head of the NIM, who promised support in setting up a customer service department and in selecting possible cooperation partners at a meeting in June 1987.⁵⁰ The promised support made it easier for Sartorius to decide to separate from CZFE after increasing conflicts. In April 1988, the management decided to conclude a customer service agreement with NIM and to establish a sales company in Hong Kong for direct market development, thus creating a completely new starting point close to the “enormous future potential of the PRC.”⁵¹

But the beginning was challenging, not only because of the violent suppression of the Tiananmen Square protests in June 1989, which was only briefly mentioned in the management minutes and not further discussed internally.⁵² Contrary to Chandler’s thesis that “structure follows strategy,” the basic structures were already in place, but a comprehensive strategy for China, or even Asia, was still lacking.

11.3.3 The Joint venture challenge: four attempts, one tailor-made solution, 1990–1995

At the beginning of the 1990s, the negotiation processes that had taken place in the 1980s, mainly with Sartorius’ external environment, shifted to the company’s internal arena. In four consecutive years, there were various attempts and deliberations at Executive Board level⁵³ to establish

Sartorius Wägetechnik, Festrede “125 Jahre Qualität, Kompetenz, Innovation” von Prof. Dr. Manfred Kochsiek, 11.9.1995.

50 SArch, Int 4/1 A 5, Kurzmitteilung Metal über Knothe an Schmidt betr. Messe “Metrology” vom 1. bis 7.4.87 in Beijing, 10.1.1987.; *ibid.*, Int 4/1 A 5, Schreiben von Kochsiek an Zhao Kegong, 22.6.1987; *ibid.*, Int 4/1 A 5, Reisebericht China, Hongkong vom 21.6. bis 11.7.87, Metal/Knothe/Schmidt. About Dr. Zhao Kegong: He studied optics at the Ilmenau University of Technology from 1958-1962. In 1979, he was the first of three Chinese scientists to be invited for a research stay at the PTB in Braunschweig to develop a frequency-stabilizing laser. Among other things, he was also commissioned to prepare the content of the German-Chinese metrology agreement; Zhao Kegong, Liu Xinmin and Konrad Herrmann, 33 Jahre chinesisch-deutsche Zusammenarbeit auf dem Gebiet der Metrologie, *PTB Mitteilungen 2 (=PTR/PTB: 125 Jahre metrologische Forschung)* (2012): 69–72.

51 SArch, Boa 2/2 A 8, Protokoll der GL-Sitzung vom 26.4.1988.

52 SArch, Boa 2/2 A 11, Protokoll der GL-Sitzung vom 20.6.1989; SArch, Com 1/1 Z 9, “Sartorius mit festem Standbein in Hongkong”, in: *Wir von Sartorius 2*, 1988.

53 In 1990, Sartorius was converted from a limited liability company into a stock corporation. Berghoff, Kleinschmidt, Lindner and Marschall, *Sartorius*, 80 et seq.

a production joint venture in China, some of which were controversially discussed by the Supervisory Board.

The first attempt was made in the context of Sartorius navigating a mature market in 1990, characterized by intense competition and price pressures in its primary domain of weighing technology. Despite recognizing the “Far East” as a potential growth market, the company’s sales in Asia had declined over the decade from 1980 to 1990, even with new subsidiaries in Tokyo and Hong Kong.⁵⁴ This was due to increased competition from Japanese firms and a lack of competitive product segmentation in the “good & cheap” segment, as Sartorius had focused on the U.S. and European markets, resulting in limited responsiveness to products and pricing in the “Far East.”⁵⁵ In response, the company developed a “Far East Concept,” which became a focal point of Board meetings in 1991, exploring manufacturing partnerships with Asian entities.⁵⁶

The strategic considerations involved acquiring a majority stake in a Hong Kong-based OEM manufacturer and engaging in a joint venture in the Shenzhen Special Economic Zone with a Shanghai balance manufacturer, aiming to reduce manufacturing costs and getting access to the Chinese market.⁵⁷ However, the Executive Board decided to reduce manufacturing costs by reorganizing production in Göttingen and to separate the activities in China from “the general problem in Asia” in the future.⁵⁸

Following this decision, Johann Metal, managing the subsidiary in Hong Kong, and Prof. Zhao Kegong, in an advisory role, continued and

54 SArch, Boa 2/3 A 1, Wieselhuber und Partner, Strategische Unternehmensplanung, Dokumente der Markt- und Unternehmensanalyse; *ibid.*, Fin 2/1 A 64, Sartorius AG Geschäftsbericht 1990, *ibid.*, Fin 2/1 A 66, Sartorius AG Geschäftsbericht 1991.

55 SArch, Int 3/1 A 17, Schreiben Grundmann an Schmidt, 21.7.1990; *ibid.* SArch, Int 3/1 A 17, Sartorius – Far East Bestandsaufnahme, 14.11.1990. In 1986, in the direct aftermath of the failed “China contract”, a discussion broke out within the Sartorius management about the general strategic orientation with regard to sales activities and technology. The arguments in favor of concentrating on the North American market and on technology leadership were countered by the assumption of rising manufacturing costs and the resulting limited marketability of these products. In favor of the former, the focus on the latter and thus the development of a second mainstay was neglected. SArch, Boa 2/2 A 3, Protokoll der GL-Sitzung vom 14.5.1986.

56 SArch, Int 3/1 A 17, Überlegungen und Gedanken über eine Fertigung einer Sartorius-Basic-Baureihe im fern-östlichen Raum, 16.11.1990, Schmidt.

57 SArch, Int 4/1 Ko 20, Protokoll der VS-Sitzung vom 28.5.1991, Anhang Strategie Wägetechnik Far East; Int 3/1 A 19, A Memorandum of Discussion on Joint Venture of Shanghai Balance Instrument Factory and Sartorius, 23.3.1991; *ibid.*, Int 3/1 A 19, Schreiben Schmidt an Dr. Laleike vom 20.9.1991.

58 SArch, Int 4/1 Ko 20, Protokoll der VS-Sitzung vom 26.3.1991, Anhang Reisebericht Fernost; *ibid.*, Int 4/1 Ko 20, Protokoll der VS-Sitzung vom 30.4.1991, Anhang Telefax Schmidt an Metal vom 30.4.1991.; *ebd.*, Int 4/1 Ko 20, Protokoll der VS-Sitzung vom 9.10.1991.

intensified cooperation negotiations with the Shanghai balance manufacturer. In a second attempt, in October 1992, the Executive Board approved an investment project to establish an equity joint venture in Shanghai, carefully evaluating the potential benefits of entering a new market against the risks associated with know-how transfer and the political situation. But once again, the project was put on hold by the Supervisory Board due to cost-cutting measures in Göttingen and a lack of management capacity.⁵⁹

A third attempt the following year produced a similar result. Dr. Holger Schmeißer, who had returned to the Executive Board as President of the Weighing Technology Division and who had been responsible for business in China in the 1980s, presented a revised concept with the same Chinese partner. However, due to insurmountable resistance from the Supervisory Board, which was particularly skeptical of technology transfer, the concept was rejected in a closed-door meeting in the fall of 1993, even before the official Supervisory Board meeting.⁶⁰

Finally, at the fourth attempt in the fall of 1994, a breakthrough was achieved that led to the establishment of a joint venture to produce laboratory balances in December 1995. The combination of several exogenous and endogenous factors played a decisive role in this decision. First, Sartorius' main competitor, Mettler Toledo, started production in Shanghai with a wholly owned subsidiary. Secondly, Commerzbank in 1993 and Baker McKenzie in 1994 had both unanimously advised Sartorius to invest in China within the next two years, "otherwise they would miss the boat."⁶¹ Third, "precision measuring equipment" remained a "welcome" funding priority in the state investment catalog of the five-year plan until 1995.⁶² Sartorius was under pressure: In order not to lose momentum and leave China to the competition, Sartorius had to act – and the internal room for maneuver appeared to be favorable. Within the company, the overall economic situation had also improved from the previous years of recession.

59 SArch, Int 4/1 Ko 20, Protokoll der VS-Sitzung vom 13.10.1992; *ibid.*, Int 4/1 Ko 20, Protokoll der VS-Sitzung vom 27.10.1992.

60 SArch, Int 4/1 Ko 20, Schreiben Schmeißer an Vorstand bzgl. Fortführung unseres Fernost-Konzeptes, 23.9.1994; *ibid.*, Int 4/1 Ko 20, Protokoll der Strategiesitzung WÄGETECHNIK, 14.10.1993; *ibid.*, Int 4/1 Ko 20, Protokoll der Strategiesitzung SEPARATIONSTECHNIK vom 15.10.1993; Dr. Holger Schmeißer, interview by Franz Caetano December 1, 2021.

61 Private archive Dr. Schmeißer, Schreiben Schmeißer an Picot betr. Gründungskonzept Sartorius China vom 23.11.1994; SArch, Int 4/1 Ko 20, Protokoll der VS-Sitzung vom 12.10.1993.

62 SArch, Int 3/1 A 17, *ibid.*, Entscheidungskriterien für ein Engagement in China vom 5.4.1991; *ibid.*, Int 4/1 A 19, Reisbericht von MacMillen vom 24.6.1991; cf. Jan-Hinnerk Bülk, "Markterschließungsstrategien Deutscher und Schweizerischer Klein- und Mittelunternehmen in der Volksrepublik China" (PhD diss., Otto-Friedrich-Universität Bamberg, 1997), A 106.

Even more important was the fact that there were significant changes on the shareholder side of the Supervisory Board: Horst Sartorius retired as “Honorary Chairman,” another Supervisory Board member resigned, and two new Supervisory Board members, who had not been influenced by previous setbacks in China, joined the Board.

In addition to the favorable environment, this time, the Supervisory Board was particularly convinced by the overall risk minimization-focused concept developed by Holger Schmeißer, Johann Metal, and Zhao Kegong.⁶³ Unlike previous years, Sartorius avoided a contractual transfer of know-how, as the joint venture partner was not a balance manufacturer but a company developing an industrial zone in Beijing. This was a major achievement, as it counteracted a threat and risk to the company that had been perceived since the Technogerma experience in 1975. Other technical risks were minimized by assembling SKD/CKD kits from Göttingen. Additionally, Sartorius benefited from a long-standing, trusted relationship with Prof. Zhao Kegong, who involved his wife, Dr. Yan Bingyu, and their son, Dr. Zhao Yuguang, as key actors in the concept. For example, Dr. Zhao Yuguang, who had been a trainee at Sartorius since 1992, was prepared for his future role as Managing Director, by being the ideal liaison with technical expertise, cultural understanding and familiarity with the guidelines and expectations of the Göttingen headquarters.

In this concept, the organizational form under company law was crucial, more precisely, the “Cooperative” or “Contractual Joint Venture” (CJV), a distinctive Chinese investment model founded on contractually negotiated agreements rather than equity definitions, as in the case of an Equity Joint Venture (EJV).⁶⁴ The CJV’s flexible contractual design favored the foreign investor in profit distribution, allowing a quicker return on investment and greater control over management than with an EJV, similar to a “Wholly Foreign-Owned Enterprise” (WFOE) but with fewer establishment requirements.⁶⁵ Despite its advantages, the CJV’s flexibility and lower

63 The content of the following section refers to: SArch, Int 4/1 Ko 20, Protokoll der VS-Sitzung vom 25.10.1994, Anhang Gründungskonzept Sartorius China; ebd., Int 4/1 Ko 20, Protokoll der AR-Sitzung vom 8.12.1994, Anhang Sartorius China, Ltd. – Gründungskonzept.

64 Robert Heuser, *Grundriss des chinesischen Wirtschaftsrechts* (IFA Verlag, 2006), 127.

65 Hans Au, *VR China. Cooperative Joint Ventures* (Verlag Dr. Otto Schmidt, 1996), 6; Holger Schwarting, *Das Contractual Joint Venture als spezielle Kooperationsform am Beispiel der Erfahrungen westlicher Unternehmen in der Volksrepublik China* (Nomos Verlagsgesellschaft, 1995), 214; Yue Wang, “Managerial Choice between Equity Joint Ventures and Contractual Joint Ventures in China: A Critical Test of Transaction Cost Economics and Resource-Based View,” *Asian Business & Management* 6, no. 3 (2007): 363; SArch, Leg 2/1 A 2, Cooperative Joint Venture Contract between Wangjing Industrial Zone Comprehensive Development Corporation and Sartorius Limited, October 20, 1995.

legal certainty posed risks, as evidenced by only three percent of German investors in China choosing this form in 1995.⁶⁶ For this reason, informal regulatory mechanisms such as network-based reputation and trust were essential in resolving conflicts between partners.⁶⁷ For Sartorius, these were ensured by the relationship network of Prof. Zhao and Dr. Yan.

Thus, the CJV was a tailor-made investment vehicle for Sartorius, resolving the joint venture dilemma and facilitating entry into the Chinese market with Beijing Sartorius Balances Corporation, Ltd.

11.4 Conclusion

Sartorius, a medium-sized family business, has been internationally oriented since its foundation in 1870. After the end of the Second World War and the Nazi autarky policy, Sartorius built on its long-term internationalization strategies and attempted to reestablish contacts not only in Western Europe and the United States, but also in the socialist states of Eastern Europe and the People's Republic of China (PRC).

Under the restrictive political conditions of the Cold War, it proved difficult to establish economic contacts with socialist "risk countries," including the PRC. Although export relations with China through trading companies had existed since the 1950s, they remained at a low level and were irregular until the 1980s. However, the focus of Sartorius' contacts was on Western Europe and the United States, as evidenced by the establishment of sales offices in 1970 and the investment in the company's first international production facility in Puerto Rico. Using Puerto Rico as a springboard, Sartorius finally succeeded in conquering the American market in the 1980s. The resulting experience encouraged the company to expand into the Asian continent as well. In addition to India, Japan, and the Southeast Asian countries, the PRC in particular attracted Sartorius' attention as a "market of the future."

66 Angelika Hilger, *Erfolgsfaktoren für Internationalisierungsstrategien: Dargestellt am Beispiel des Engagements deutscher Unternehmen in der VR China* (Peter Lang, 2001), 180. In China in general, one in five market entries in 1995 was a CJV in terms of total realized FDI in dollars, whereby the CJV was statistically well behind the EJV (51%) and the WFOE (27.5%). The CJV form of investment was particularly prevalent in Guangdong province until 2000 and was primarily established between Chinese and Hong Kong companies. Yue Wang and Stephen Nicholas. "New Perspectives on Subsidiaries in the Transition Economy of China," in *Managing Subsidiary Dynamics: Headquarters Role, Capability Development and China Strategy*, edited by Joseph L.C. Cheng et al. (Emerald JAI, 2009), 167.

67 Schwarting, *Contractual Joint Venture*, 216; Yue Wang, "Inside Contractual Joint Ventures in China: Ownership Advantage, Resource Contribution and Management Control," *Asian Business & Management* 5, no. 3 (2006): 396.

When Sartorius made its first contacts at the Technogerma trade show in 1975, following the establishment of diplomatic relations between West Germany and China, the technology-oriented company recognized the market potential. At the same time, the company was confronted with the risk of an uncontrolled outflow of know-how, which remained the central criterion for all cooperation and investment decisions in the following decades.

In the 1980s, the initial phase of the internationalization process, Sartorius was a perfect example of the Uppsala typology, a tool that is particularly suitable for analyzing rather inexperienced and smaller companies. Sartorius leveraged external market knowledge from its network and its own experiences from business trips to conduct initial cooperation negotiations driven by market-oriented motives. Despite the setback of the cancellation of a long-negotiated contract in 1986, Sartorius intensified its efforts by appointing an internal market manager and establishing a local presence, which proved crucial for understanding market dynamics and seizing opportunities. The decisive factor here, however, was the second row of management, which asserted itself against the directive of the managing directors and owners, who stereotypically took a more risk-averse position towards the Chinese market.

The cooperation with NIM and the establishment of a sales office in Hong Kong were significant steps in Sartorius' market entry process, illustrating the importance of local knowledge in handling internationalization risks, as well as the strategic adaptability and agility of SMEs. In contrast to larger companies such as Volkswagen, it was not political momentum that played a role here, but good connections to the scientific community, which made it possible to establish contact with NIM with the help of PTB.

In the early 1990s, several attempts were made to establish a joint venture in China. However, these initiatives failed primarily due to resistance from the supervisory board. Ultimately, the establishment of a production company in Beijing in 1995 was driven by a confluence of factors, including competitive pressure, the appointment of a new supervisory board, and a risk-mitigation strategy that leveraged long-standing local relationships and utilized the unique investment structure of a cooperative joint venture.

The Sartorius case study shows in particular that it is worth taking a closer look at the key actors behind an internationalization process, as the personal commitment and scope for action of various actors had a decisive influence on investment decisions and the "how". Further case studies are needed to examine whether the above is an exemplary case of a technology-oriented medium-sized company or a tailor-made individual case.

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12 Concluding Summary

Risk Mitigation Strategies in Uncertain Political Landscapes

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This volume has examined how (West) German companies navigated historical challenges across the 20th century, with a particular focus on their engagements in Asia's Cold War and (post)colonial contexts—a dimension often sidelined in narratives of Germany's rise as an “Exportweltmeister.” While existing scholarship has emphasized economic risk as a framework for analyzing corporate behavior, this volume shifts the lens to security, conceptualizing it as a critical driver of decision-making in environments shaped by colonial legacies, geopolitical rivalries, and decolonization. By tracing strategies across the Weimar Republic, National Socialist regime, and Federal Republic of Germany, the case studies reveal how firms adapted to systemic uncertainties—such as expropriation threats, trade disruptions, and shifting alliances—while maintaining transnational operations in Asia. Crucially, the volume bridges pre- and post-1945 histories to highlight both ruptures (e.g., wartime state coercion, postwar democratization) and continuities (e.g., reliance on prewar networks, persistent engagement with authoritarian regimes), thereby demonstrating how security concerns fundamentally shaped corporate trajectories, state-corporate collaborations, and Germany's evolving role in the global economy.

This volume distinguishes three key categories of German economic relations with Asia: 1. German-Japanese economic relations as an expression of two rapidly growing economies or industrialized countries, and their wartime alliance as “Axis powers” during the Second World War, 2. German-Chinese economic relations, defined by Cold War-era engagement between a capitalist Western state and a communist regime—a relationship that grew into one of Germany's most vital economic partnerships by the late 20th century; and finally 3. Germany's economic relations with the “Global South”, (formerly known as “developing countries”), beginning with South Korea in the 1950s and expanding to include India and Malaysia in later decades. This framework highlights the distinct geopolitical, ideological, and temporal contexts shaping Germany's economic

strategies in Asia, offering a structured lens to examine continuities and transformations across regions and eras.

The two chapters on Japan clearly show that German companies, such as Telefunken had already begun establishing contacts with Japan in the 1920s as part of their growth strategy. Like their German and international competitors from Great Britain and the United States, they shared similar expectations. Market entry often took place through Japanese partner companies, which expected to receive technical know-how transfers from German companies during a phase of catch-up industrialization. Although collaborations in the 1920s were not always conflict-free, they continued throughout the Second World War, particularly within the context of armaments projects. For most German companies, the end of the Second World War marked an interruption in their international business contacts, along with the loss of property, international production sites, and trademarks. To re-establish these contacts and regain access to the global markets, Telefunken revitalized its relationships with Japan in the early 1950s. As a war loser, Japan found itself in a situation like that of the Federal Republic of Germany. During the reconstruction of the Japanese economy, the USA played an important role, especially in the transfer of technology. Much like the Federal Republic, Japan experienced an “economic miracle” in the 1950s, with the Japanese electrical industry playing a key role.

By the second half of the 20th century, Japanese electrical companies had transitioned from technology importers to equal cooperation partners, and West German suppliers increasingly found themselves unable to meet the “Japanese challenge”. Case studies of the chemical industry reveal that Japanese state economic policy, under MITI, played a significant role in transforming Japan into a “high-risk environment” (Jonathan Krautter) for West German investors. These included government investment controls, protectionism and import restrictions as well as party political influences on Japanese companies. To minimize the risks and uncertainties of market entry into a rapidly developing industrial economy like Japan, German companies embarked on cooperative ventures and joint ventures with local producers and traders. From the mid-1960s, alongside the rapid rise of Japanese companies and industry, Japan’s liberalization program facilitated investments and imports from West German firms—at a time when Japan had become a formidable competitor in numerous sectors, often posing economic challenges for German companies.

German-Chinese economic relations evolved quite differently after 1945, particularly following the establishment of the Federal Republic of Germany and the People’s Republic of China, both in 1949. In this context, it was less about the competitive conditions of the market economy,

the aftermath of the war, or economic policy restrictions reflecting special economic development measures and market regulations. Instead, the key factors were the contrasting regulatory frameworks of two economic systems during the Cold War era and the associated geostrategic distortions. These distortions introduced significant uncertainties and risks for the West German economy and its companies, as demonstrated by the case studies of the Deutsch-Asiatische Bank and the medical technology manufacturer Sartorius.

During the Cold War and the CoCom agreements, establishing foreign trade contacts with socialist states such as the Soviet Union or the People's Republic of China posed significant challenges from the perspective of the Western allies, particularly the USA. However, for many West German companies, there was a clear interest in reestablishing pre-war contacts as they reentered the global market. In the case of China, attention was also directed toward largely untapped markets with significant future potential, especially as Chinese counterparts signaled an interest in economic relations with the Federal Republic.

On the West German side, the push for economic exchange was driven in large part by interest groups, such as the "Ostausschuß der Deutschen Wirtschaft" (Eastern Committee of German Business), which ultimately succeeded in overcoming the U.S. concerns. This was achieved through the West German economy, often operating in gray areas and semi-official agreements, bypassing official channels and circumventing embargo lists. This strategy lasted for three decades until the opening of the Chinese economy in the late 1970s, following reforms in the People's Republic of China. This shift is illustrated by the cases of the Deutsch-Asiatische Bank and the medical technology company Sartorius. This period was marked by economic and, above all, political uncertainties, with the latter being mitigated by state or federal government guarantees, such as HERMES credit insurance, which were granted particularly for economic contacts with socialist states and countries in the Global South. China met both of these criteria. It is clear that China was not a primary focus of West German companies' internationalization strategies. Instead, it was a small building block that – like a sleeping giant – very quickly gained significance after China's opening. Within a few years, China emerged as a central future market. After the fall of communism in 1989/90, the People's Republic of China became an important source of opportunity for many German companies and ultimately developed into one of the Federal Republic's most important economic partners by the 2000s. The Cold War after 1945 and the phase of decolonization from the 1960s onward introduced new risks and uncertainties for the West German economy. At the same time, these geopolitical shifts created opportunities for West

German companies seeking to reintegrate into the global economy. In Southeast Asia, for example, West German firms leveraged pre-1945 economic ties, following in the wake of former colonial powers such as Great Britain and the Netherlands. This was particularly evident in Malaya or Indonesia, where German businesses reestablished and expanded their presence after the Second World War. At the same time, Germany's lack of colonial entanglements after the First World War contributed to a reputation for technological expertise and know-how, offering a competitive advantage over the recently discredited colonial powers. As a result, German companies emerged as beneficiaries of decolonization, a development that can also be seen as part of the broader West German "economic miracle".

Despite the uncertainties and risks associated with entering foreign markets in the context of shifting political landscapes, many West German companies pursued adaptive and locally engaged strategies. The family-owned Hamburg trading firm Behn Meyer exemplifies adaptability and strategic acumen in navigating Malaysia's localization policies. Unlike other foreign firms that opted to divest amid initial skepticism toward Malaysification, Behn Meyer ensured its longevity by embracing local involvement, strict compliance, and cooperative engagement. Its ability to align with Malaysia's evolving political and economic landscape not only secured its foothold but also reinforced its resilience in a rapidly changing market. In South Korea after 1945, German firms such as Hoechst and Bayer faced significant challenges, including political instability (notably the Korean War), limited market knowledge, and the financial risks associated with highly indebted Korean businesses. To mitigate these uncertainties, they relied on personal and entrepreneurial networks, licensing agreements, joint ventures, and cooperative ventures—strategies that fostered trust and security. These efforts were reinforced by German government initiatives, including development aid and HERMES export credit guarantees, which were also applied to other regions of the Global South.

A similar dynamic played out in India following its independence in 1947. Indo-German economic relations were shaped by the positive reputation of the German industry dating back to the interwar period, Prime Minister Jawaharlal Nehru's interest in German technological expertise, and longstanding ties between Indian nationalists and Germany, which aimed to dismantle colonial economic structures. These factors created a strong foundation for German exports and direct investment in India after 1945. Even today, German companies remain key economic partners in East, South, and Southeast Asia.

A recurring theme across case studies is how German companies developed sophisticated risk mitigation strategies when operating in

politically uncertain Asian environments. Political risk manifested in multiple forms: unpredictability of government actions, asset seizures, restrictive policies, sanctions, embargoes, and broader Cold War tensions. These challenges were further shaped by both colonial legacies and post-colonial transformations, which influenced regulatory landscapes, national sentiments, and market access. Companies responded with varied and adaptive approaches to navigate these historically layered and politically volatile settings.

For South Korean operations after 1945, firms like Hoechst and Bayer encountered substantial obstacles, including political instability during the Korean War, limited market understanding, and financial exposure to heavily indebted Korean businesses. Their response involved leveraging personal and entrepreneurial networks, establishing licensing agreements, forming joint ventures, and developing cooperative ventures that fostered trust and security. As Eichert's case study demonstrates, companies needed to carefully align their strategies with local realities, and government-backed insurance mechanisms such as export and investment guarantees proved crucial where available.

Similarly, in Japan, West German chemical companies faced what Krautter aptly describes as a "high-risk environment" characterized by government investment controls, protectionism, import restrictions, and political influence on Japanese companies. Their primary mitigation strategy involved establishing cooperative ventures and joint ventures with local partners to minimize uncertainties associated with market entry.

An overlooked aspect of German-Asian business relations is the critical role of financial institutions in redistributing risk. Rather than individual companies bearing the full burden of market entry, banks often functioned as essential intermediaries. The *Deutsch-Asiatische Bank*, as revealed in Liu's case study, took on risks that individual companies were unwilling to assume. This pattern was similarly evident in Sattler's analysis of the Straits and Sunda Syndicate and Oestermann's examination of how risks were distributed through direct investment in raw material production.

The DAB case illustrates how maintaining a legacy name and reputation helped navigate the complex waters of international trade despite significant political barriers like sanctions and embargoes. Investors and shareholders often placed their trust in strategies and companies that had cultivated and preserved their reputations over decades. This reputational capital became a valuable asset during periods of geopolitical uncertainty.

In the complex geopolitical landscape of the Cold War, German companies frequently assumed roles that transcended purely economic functions. As demonstrated in the Chinese context, companies operated as diplomatic intermediaries, facilitating trading agreements and creating pathways around political barriers such as the Hallstein Doctrine. This

provided China with an entry point into trade with the Western bloc while simultaneously advancing German business interests.

The intersection of politics and business characterized postwar economic diplomacy, with corporate strategies adapting to evolving international negotiations. Das Gupta's research reveals how, despite their relatively small size, the assets of German businesses became key bargaining chips in financial aid negotiations. These negotiations aimed to advance India's industrialization while enabling Germany to expand exports, ultimately helping the Federal Republic reemerge as a relevant global economic power.

The volume's case studies reveal the persistence of colonial extractive practices in German business operations across Asia. Franke's analysis of art dealers, Sattler's examination of plantation owners, and Oestermann's research on pharmaceutical manufacturers all demonstrate how German companies shifted their resource extraction strategies following the collapse of established colonial systems.

After Indonesian independence, German pharmaceutical companies redirected their focus to colonial territories in the Congo to secure raw material supplies. As Sattler's investigation of the Straits and Sunda Syndicate demonstrates, German companies were acutely aware of various risks—political instability, lack of on-the-ground expertise—and developed specific mitigation strategies: adhering to European colonial territories, sharing risk with other European investors, commissioning external assessments, and maintaining relatively low capital investment. The pursuit of cheap manufacturing in the 1950s can be understood as a continuation of these colonial extractive patterns.

The case studies highlight how successful German businesses developed cultural adaptability and hybrid business models to navigate Asian markets. While some European companies maintained arrogant attitudes rooted in colonial mindsets—particularly evident in the art trade where different market systems, social contracts, and production methods were often subject to European value judgments—others like Behn Meyer demonstrated remarkable cultural adaptability.

These cultural intersections became birthplaces for more versatile and resilient forms of business enterprise where politics and commercial interests intertwined. The informality that emerged has been established as a key characteristic of these emerging markets. The case of Behn Meyer illustrates how local knowledge and networks, reinforced by the long-standing loyalty of young expatriate managers and sales personnel, combined with strong orientation toward local politics and a commitment to building national capacity through local staff training, enabled the company to establish enduring trade relationships with Malaysia, Indonesia, and Singapore.

Paradoxically, Germany's relatively limited imperial ambitions compared to Britain or the Netherlands often proved to be a competitive advantage.

Without strong imperial backing, German companies developed a greater focus on local conditions and worked within them rather than imposing external frameworks. This compelled a more adaptive approach that served German businesses well in the postcolonial era.

While German companies were well-positioned to expand colonial-model businesses, the outbreak of World War I curtailed these ambitions through sanctions and trade restrictions. This historical experience underscores the need for a more critical and nuanced account of German colonial ambitions. The corporate and entrepreneurial histories presented in this volume open important research avenues for rethinking German colonial history, particularly by focusing on its often overlooked regional dimensions. Such research is crucial for understanding postcolonial trajectories that enabled the strong presence and success of German companies like Behn Meyer in Malaysia or the postwar revival of Siemens in India.

Future Research Directions

While this volume offers valuable insights into German business operations in Asia, several important research avenues remain to be explored:

- 1 **Multilateral Perspectives:** Most case studies acknowledge limitations in accessing perspectives from Asian counterparts to German entrepreneurs. Future research would benefit from multi-sited, multi-perspective approaches that incorporate Asian voices and archival sources. This challenge highlights the need for international research cooperation and specialized linguistic and cultural skill sets.
- 2 **Comparative Colonial Frameworks:** Expanded comparative research examining businesses from other nations with strong trade involvement but without direct colonial control (Scandinavia, Switzerland) could yield valuable insights into adaptive business strategies in colonial contexts.
- 3 **Racial Capitalism:** There is significant potential to connect these case studies to emergent literature on racial capitalism, particularly regarding how racialized perceptions influenced business decisions and risk assessments. For instance, observations of racism, stereotypes of Asian forgery, poor quality, and plagiarism—alongside contrary phenomena like the “Japanophilism” of Telefunken’s CEO—warrant deeper investigation.
- 4 **Management and Decolonization:** The role of corporate management in navigating the decolonization process remains underexplored. The case studies reveal that younger generations of managers and sales representatives sent abroad often developed perspectives that differed from risk-averse, stereotypical views held by senior management. Franz and Kleinschmidt’s research shows how senior management initially

resisted increased internationalization in China, while long-standing local relationships built over decades eventually enabled cooperation.

- 5 **The “Great Convergence” in Business History:** Staffel’s research on Telefunken’s business in Japan offers a compelling case study of how companies from industrialized countries experienced and aligned with what economic historians call the “great convergence.” This is evident in Telefunken’s shifting view of Japan: from pre-war focus on extracting profit and tightly controlling technology and patents, to postwar recognition of Japan as a potentially strong partner and innovation source. This lens could be productively applied to other case studies.
- 6 **GDR Comparative Analysis:** As noted in the original text, the role of the German Democratic Republic (GDR) in these global economic transformations warrants further investigation. Comparative analysis of companies and corporate strategies across the divided Germany, particularly regarding state institutions such as development aid, subsidies, export supports, and guarantees, would enrich our understanding of Cold War economic dynamics.

The articles compiled here provide an in-depth examination of German corporate engagement in Asia throughout the 20th century. However, to develop a more comprehensive understanding of these economic relationships, further industry- and company-specific research is required. This also applies to international contexts. Comparative international approaches are also necessary, particularly in relation to other industrialized and former colonial powers such as Great Britain, the Netherlands or France, as well as the U.S. and the former socialist states of the so-called Eastern Bloc during the Cold War and decolonization. While this collection does not include an analysis of the GDR, its role in these global economic transformations warrants further investigation. A comprehensive analysis would require comparing corporate strategies across companies, while critically examining the role of the state and its institutions—particularly in the areas of development aid, export subsidies, safeguards, and guarantees. Understanding how these mechanisms shape international business dynamics is essential for evaluating both market entry strategies and long-term resilience. Additionally, research on cultural frameworks such as “multiculturalism”, “transculturalism” and “interculturalism” remains underdeveloped despite their growing relevance in navigating complex global markets. Advancing scholarship in these areas is crucial for capturing the nuanced interplay between business practices and cross-cultural engagement in emerging economies.

Future studies should explore the impact of language competence, cultural imprints and identity formation and differing economic and business

practices on German-Asian commercial relations. These dimensions are crucial for understanding the complex interactions that have shaped West Germany's economic engagement in Asia and continue to hold relevance for contemporary global business strategies. Addressing these factors will provide deeper insights into how cultural and institutional dynamics influence long-term commercial success across regions.

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