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MORE THAN A MARKET

How German companies are growing
roots in Chinese society

| BertelsmannStiftung

CONTENT

WHY

The future success of German companies in China will depend on a new perception of the business environment there, namely that China is more than just a market. China is an increasingly complex society with a growing number of actors. Given its importance as a market, German companies must ask themselves: Beyond specific industry trends, which **developments in Chinese society** are of strategic relevance for doing business and achieving long-term success there?

PAGES
04 – 07

WHAT

This mapping study explores what is happening at the point where German companies, the Chinese market and Chinese society interface. The survey was initiated in June 2014 by the Bertelsmann Stiftung in partnership with the German Chamber of Commerce in China, Shanghai and the Shanghai-based consulting agency Constellations International. It is **supported by the German ambassador to China and the Chinese ambassador to Germany**. This publication is intended as an “idea book” for anyone concerned with the question of how **German companies** can establish and grow roots in Chinese society.

08 – 13

50 – 51

HOW

Approximately 25 face-to-face interviews were conducted with employees of German companies and with related experts. Of these, **11 case stories** have been generated, including **4 cases of collaborative engagement**. This approach is qualitative in nature, generating information about the strategies companies use and the approaches they take to address social challenges. The case stories are augmented by **interviews with and opinions by academic specialists, industry observers and societal actors**.

14 – 47

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COMPANY-MARKET-SOCIETY

WHAT IS HAPPENING AT THE POINT WHERE GERMAN COMPANIES, THE CHINESE MARKET AND CHINESE SOCIETY INTERFACE?

China is a major power of the 21. century and Germany has a strong interest in a stable and healthy Chinese society. This report documents results from a mapping and dialogue process initiated in 2014 by the Bertelsmann Stiftung in cooperation with the German Chamber of Commerce in China, Shanghai and the Shanghai-based consulting agency Constellations International. It features numerous case studies of German companies and viewpoints expressed by experts and industry leaders.

TRENDS AND THEIR IMPACT ON COMPANIES

All of the companies examined expect a more complex social environment in China. They also expect that key trends such as the country's rising middle class and shifts in values will have a substantial impact on their business. Given that they face increasingly demanding stakeholders, the organizations surveyed are implementing a range of measures, everything from trying to increase younger employees' loyalty to the company to catering to quickly changing customer expectations. While they have an opportunity to showcase their extensive environmental know-how and technologies in light of the country's rapid urbanization and high pollution levels, German companies in China are also coming under increased scrutiny by customers, media and government authorities.

APPROACHES TO SOCIAL ENGAGEMENT

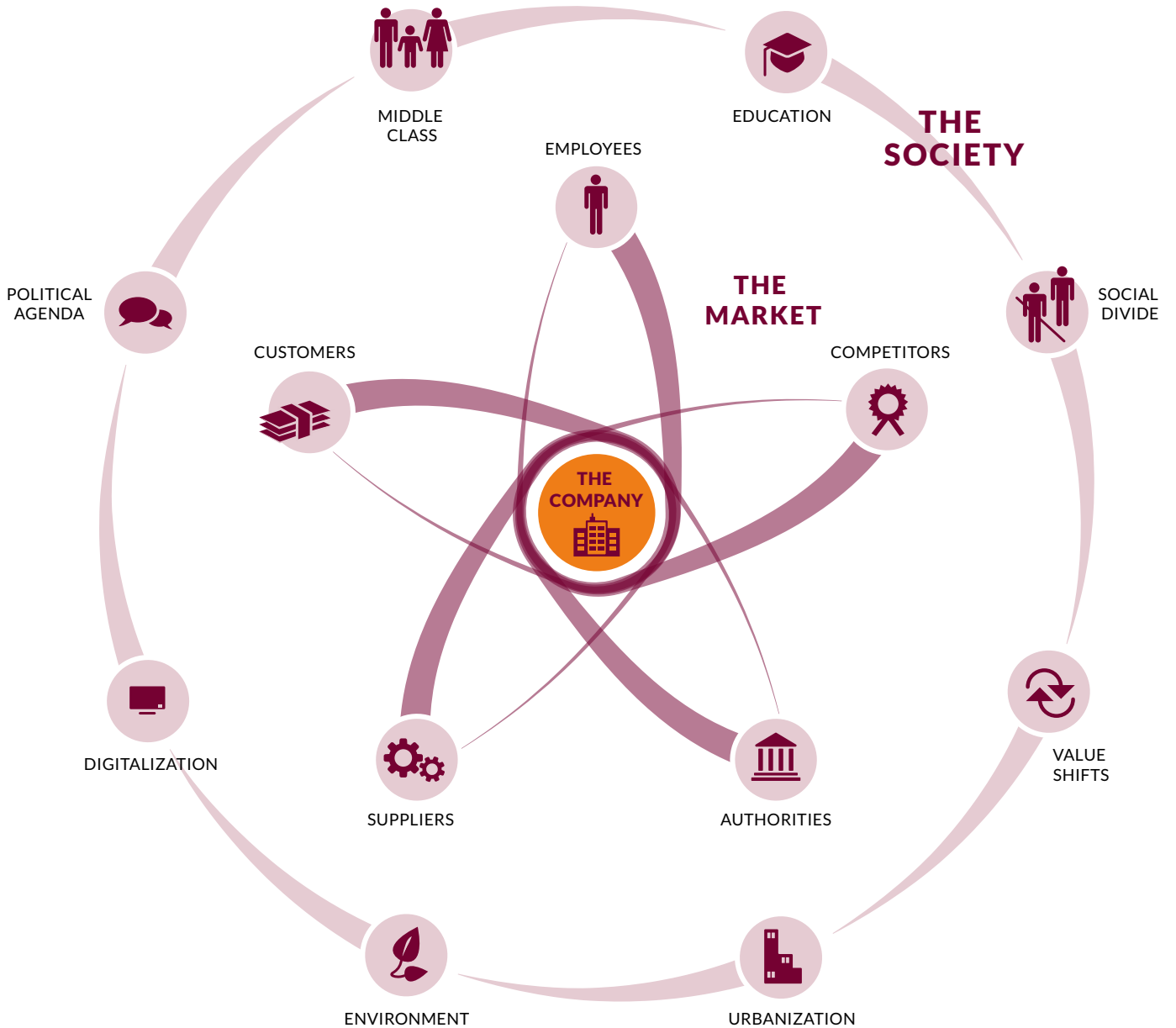
The notion of the "honorable merchant" appears to be a trait inherent to German corporate citizenship. What it represents is the understanding that responsibility must be lived everywhere in the company and not confined to corporate social responsibility (CSR) activities. This also relates to the tradition in many typical "Mittelstand" companies: Germany has developed a culture of social responsibility in business since the early 19th century which is strongly intertwined with the history of the welfare state. Building a culture of trust, care and respect has been a key effort at every company surveyed and could well describe the approach these organizations adopt towards their stakeholders. The activities undertaken very often revolve around caring for employees; they include opportunities for training, international exchange and personal development, along with other types of support. The focus of the engagement is often internal. When it is geared towards the surrounding community - through donations to charities or earthquake victims, or through volunteering activities carried out together with NGOs and "hope schools" - the aim is mostly to create a sense of pride and increase employees' loyalty to the company. At a time

when recruiting and retaining talent is becoming more and more difficult, such engagement is of strategic importance.

Less obvious methods of engagement for German companies are their activities in areas where Germany has extensive, longstanding know-how, such as vocational training and environmental protection related know-how and technology. Not only do such measures benefit the companies' business - by increasing the availability of skilled workers, for example - they also have a direct and very positive impact on Chinese society.

OUTLOOK AND RECOMMENDATIONS

In terms of lessons learned, it is clear that most companies and leaders have a number of shared experiences: the need for long-term engagement and for commitment on the part of company leadership; a true willingness to get involved; and an understanding of the key role social engagement plays in building and maintaining relationships with government authorities. As for ideas for the future, one suggestion that was repeatedly mentioned was bundling individual companies' efforts in order to increase impact and create visibility for the values that characterize how German companies do business in China.



SOCIETY

ISSUES & STAKEHOLDERS

RISING MIDDLE CLASS

Roughly 300 million people, about one third of urban households, belong to the middle class. Their relative affluence allows them new lifestyle choices, such as buying cars (18 million a year, delivering one-third



TV, Refrigerator, Washer
1980s



air condition, mobile phone, computer
1990s



apartment, car, vacation
today

of the global auto industry's profits), but also caring about the environment and social issues.



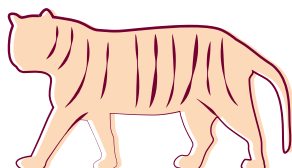
MIDDLE CLASS

POLITICAL AGENDA

In October 2013, President Xi Jinping revealed an unprecedented blueprint for reform, known as the "Chinese Dream," which includes policies to raise the living standards of China's poor, efforts to promote more sustainable growth and an anti-corruption campaign. Revived strength as an international power has also become a key part of Xi's ideological concept. Whether the leadership will succeed in pushing through its reform agenda remains to be seen.



Xi Jinping has emerged as a heavyhanded ruler, both towards corrupt officials and critics. In his anti-corruption campaign he has promised to go after **flies** (i.e. small crimes) as well as **tigers** (i.e. high officials).



POLITICAL AGENDA

Families and peers

From traditional Confucian family focus to unconventional household structures. From social pressure to individuality.

Cultural scene

From big, state-owned cultural players to the individual "cultural entrepreneur." From "Made in China" to "Created in China."

Think-Tanks

From state-owned institutions to informal knowledge networks. From importing ideas to exporting ideas.

Media

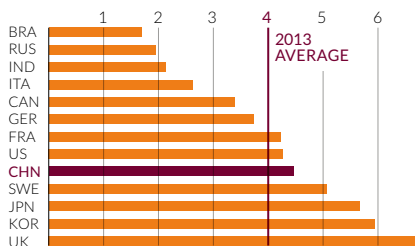
From big-government mouthpiece to private professional media outlets. From state-appointed journalists to "everyone is a blogger."

DIGITALIZATION

DIGITALIZATION

With 632 million internet users and more than 700 million smart devices, China has the largest online community in the world. For the younger generation, social media - mostly homegrown portals that are under intense government supervision - are becoming a main source of information and are dramatically changing the way people communicate and interact.

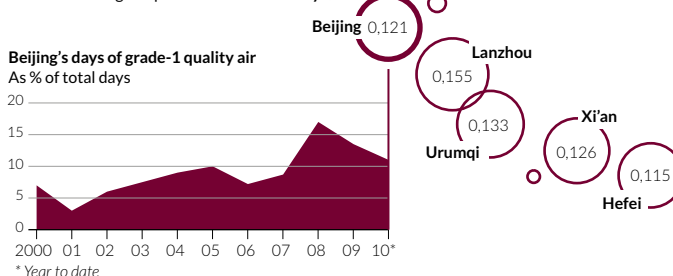
Internet-related expenditures as % of respective country GDP



POLLUTION

China's rapid economic growth has resulted in highly polluted air, water and soil. The World Bank estimates the cost to be nine percent of GDP. Every year, some 750,000 people are believed to die prematurely because of environmental hazards. The government is trying to steer the economy onto a more sustainable growth path and is investing heavily in environmental technologies, which in China includes nuclear power.

Fine dust pollution 2010
milligram per m³ of air



ENVIRONMENT

EDUCATION

Education Institutions
From mainstream state system to pilot private education projects. From largely rigid to occasionally experimental.

Social Organizations
From state-sponsored non-profits to individual social entrepreneurs. From donation-dependent to service provider for the government.

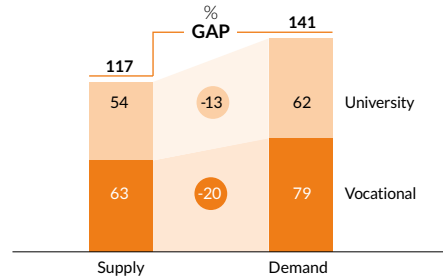
Local communities
From party-organized centers to grass-roots social clubs. From top-down control to controlled participation.

Government
From national bodies to city-level stakeholders. From centralization to decentralization.

Industry associations
From big, state-run industry associations to private-sector initiatives. From mandatory participation to more interest-based involvement.

URBANIZATION

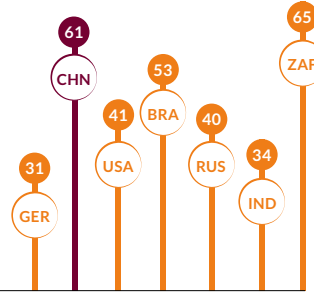
Demand for university and vocational labor in China is expected to exceed supply by ~24 million workers in 2020



SOCIAL DIVIDE



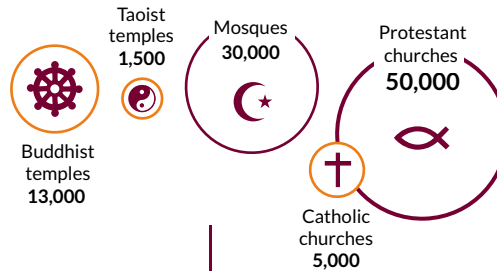
The Gini coefficient measures income distribution, with 0 representing complete equality and 100 representing complete inequality. Wealth gaps beyond 40 are considered critical by the United Nations.



SOCIAL INEQUALITY

China has one of the highest income gaps in the world, and it has developed quickly. One generation ago most Chinese were equally poor. Today, 10 percent of the rich control 52 percent of the wealth. A large gap exists between rural and urban areas, as well as between coastal and central regions. A more equal distribution of wealth is a top government priority, but it remains an unfulfilled promise.

What do the Chinese believe in?



VALUE SHIFTS

In recent decades, China's social value system has experienced several shocks and shifts. Communism gave way to capitalism. Western lifestyles compete with Chinese traditions and nationalist sentiment. Religious groups are thriving, as are private foundations and grass-roots groups. The diversification of China's value system has also resulted in efforts to define common ground.

China produces **6 to 8 bn** cubic meters of concrete every year.

That is enough to build **51,200** Shanghai Tower

or pave **60,000 km²** of ground.

URBANIZATION

Fourteen million people move to cities every year. In 1990, only 20 percent of Chinese lived in cities; today 54 percent are urbanites. Major challenges include combating pollution, creating infrastructure and managing resources, as well as employing and providing social services to the migrant population of about 230 million (almost the population of Europe).

LIZ MOHN

*Vice-Chair of the Bertelsmann Stiftung
Executive Board*

GOODWILL IS A KEY SUCCESS FACTOR

Due to globalization Germany is facing enormous challenges in the social, economic and political spheres. The Bertelsmann Stiftung is developing responses for how Germany can master these changes. What is your core message?

: Changes stemming from globalization, not to mention technology, are resulting in great uncertainty. We know what happened in the last 12 months, but not what will happen in the next 12. We therefore have to find our way from a world of conflict to a world of dialogue and cooperation. No country will be able to solve future challenges alone.

How can we do this?

: I believe we have to communicate values, take responsibility and build trust if we are to make the world a more just, humane and peaceful place. Younger generations need the prospect of a future



worth living in. Along with policymakers, the business community must do its bit and get involved. We need a sustainable economy. We need companies that take a long-term perspective and are socially committed. We need managers in companies who are willing to live values such as care, respect, responsibility and goodwill.

In Germany in 2007, you started the initiative Companies in the Community, which recognizes responsible action. What are its objectives?

: The Bertelsmann Stiftung wants to help ensure that, in addition to achieving economic success, companies take on social responsibility. We want to demonstrate ways for striking a balance between profit considerations, people-centered attitudes and social responsibility. Today, more than 1,600 companies have shown their commitment by joining the Companies in the Community network. Most are belong to the Mittelstand, the group of medium-sized businesses



Shanghai Skyline, February 2015

that make up the backbone of the German economy in terms of innovation and employment and that serve as role models who truly live their corporate values. The initiative is now being run by an independent organization and awards the My Good Example prize every year.

Would such an initiative work in China as well?

: Social responsibility has become a global topic. We know that entrepreneurs who assume social responsibility are more successful economically. If they are smart, entrepreneurs realize they can only be successful if they are in tune with social developments. This also means actively shaping their social environment. This can result in a foundation of shared values - values characterized by reason and goodwill. After all, goodwill is a key success factor!

Goodwill must be built on trust. How can we increase trust?

: Society needs trust more than ever before. It is our social capital and is as important for ensuring a stable community as for ongoing economic success. It means taking people and their concerns seriously, viewing their varied abilities as a valuable opportunity and respecting different cultures and markets. It means creating a culture that promotes the relevant values and that focuses on people once again. If we succeed in achieving this, I would be optimistic about the future despite the crises and challenges we currently face.

SHI MINGDE

Chinese Ambassador to Germany

WE NEED MUTUAL UNDERSTANDING AND TRUST

China and Germany are more to each other than just markets. In addition to their economic and political relations, social and cultural connections are growing as well. What is the social capital offered by their relationship?

: At present, the comprehensive strategic partnership between China and Germany is moving forward with sound momentum. In addition to excellent political and fruitful economic relations as well as good cooperation in international affairs, China and Germany enjoy an active cultural exchange. In recent years, Germany organized “Germany and China – Moving Ahead Together,” a series of cultural activities in China, while China held the Year of Chinese Culture in Germany. Germany’s three biggest museums and the National Museum of China jointly mounted the “Art of the Enlightenment” exhibition in Beijing, and German cities have hosted Chinese cultural festivals for many years. The German-Chinese Language Year 2013/2014 was also very successful. Currently, there are more than 25,000 Chinese students studying in Germany, the largest group of foreign students in the country, while more than 6,300 young Germans are studying in China. Sixty-nine states, provinces and cities and more than 500 colleges and universities in China and Germany have established partnerships with one another. Germany has 15 Confucius Institutes and more than 300 primary and secondary schools offering Chinese language courses. More than 70 flights per week connect over 10 cities in the two countries, resulting in more than a million visitors travelling between China and Germany annually. China and Germany, the most important partners in their respective region for the other country, attach great importance to cultural exchanges as a means

of promoting mutual understanding and bilateral relations. To this end, China and Germany will continue to increase cooperation in the fields of education and culture and promote nongovernmental exchanges for greater mutual understanding, trust and friendship.

Trust plays a central role in relationships and is sometimes lacking. How can we increase trust?

: The first way to strengthen trust is to maintain close contacts among the top leaders of the two countries and make full use of the 60 mechanisms for dialogue between China and Germany as a way of enhancing mutual understanding and trust between the two countries’ policymakers. The second way is to further promote bilateral cultural exchanges, as well as mutual understanding between the two peoples. As President Xi Jinping said, what keeps people apart are not mountains, rivers or oceans, but a lack of mutual understanding. The Chinese and German people have different histories and cultures, as well as national circumstances and social systems, and thus it is normal for them to have different views on some issues. The key is to communicate based on equality and mutual respect, understand and treat each other sincerely, listen to each other’s opinions and imagine what it’s like to walk in the other’s shoes. The third way is to improve mutual understanding and trust between the two countries, an area in which the media play an important role and bear considerable responsibility. We hope that the German media can report on China in an objective, fair and in-depth manner, thereby conveying the image of a diverse, real and modern China to the German public.



China and Germany both face the question of how the business community can and should help address social challenges. What contribution is China hoping for from German companies?

: Both countries are experiencing a critical period of economic and social development. In China's case, overcoming its many social challenges depends on economic development, which will gradually improve peoples' lives and help solve various social problems. Although China's current economic growth has slowed, its economy still has huge growth potential, market capacity and room for recovery. We are therefore fully confident that the Chinese economy will experience rapid growth in the future. Similarly, we hope that Germany has confidence in China's economic development, and that the country continues to increase investment in China, especially in the central and western regions. German companies are expected to make full use of their advantages, both helping solve China's social challenges and spurring their own development. For example, German companies have advanced technologies for protecting the environment, as well as management experience, and Germany and China should cooperate in this field as a result. German medical equipment has a very good reputation around the world, and the relevant enterprises should actively develop more suitable, cheaper and better products for the Chinese market, which will help the Chinese people to enjoy better health-care. We hope that German businesses in China can play a leading role in assuming social responsibility and giving back to society. To be specific, German enterprises should help cultivate local talent and reduce shortages of professional and technical personnel.

What is your vision for German-Chinese relations in 2030? Where do we have to start today to reach this goal?

: In the medium- and long-term, I believe China and Germany will experience improved bilateral relations, closer and more pragmatic cooperation and a more profound friendship between their two peoples. There is no fundamental conflict of interest between the two countries. China and Germany can celebrate how they complement and benefit from each other, rather than compete. In addition, they can enjoy economic cooperation with its great potential and considerable prospects. As countries with significant influence in their respective regions and even on a global level, China and Germany bear an important responsibility for maintaining peace, stability and prosperity, as both countries also have common interests in international affairs and an increasing desire for cooperation. Last Year, china und Germany held the third round of government consultations and issued the Action Program for Chinese-German cooperation, which centers on innovation partnerships and serves as a guide for the long-term development of bilateral relations. China and Germany should make joint efforts now to implement the program.

MICHAEL CLAUSS

German Ambassador to China

AN INNOVATION PARTNERSHIP THAT MEANS MORE THAN JUST TECHNOLOGY

China and Germany are more to each other than just markets. In addition to their economic and political relations, social and cultural connections are growing as well. What is the social capital offered by their relationship?

: Germany is China's preferred partner when it comes to modernization. China is aware of the huge challenges it faces in spite of the impressive growth of recent decades: extreme imbalances in economic and social development, environmental problems, ageing, a middle class that is increasingly demanding a reliable legal framework, and an educational system that does not promote innovation to the desired extent. Germany is a partner China very much wants to work with in all of these areas. Most importantly, China trusts Germany. The statement that China and Germany are more to each other than just markets is entirely accurate.

To give just one example: We agreed to cooperate more closely on "innovation," which in this case means much more than just technology. It also refers to the modernization of social systems, educational institutions and structures ensuring the rule of law. Modernization efforts of this sort have the potential to sustainably improve how Germans view China. Hardly anything would promote the social capital inherent in our relationship more than a positive image of China.

Obviously, our highly successful economic relations play an important role in the development of social capital as well. German companies are often key players in China when it comes to promoting employer-employee relationships, such as ensuring fair and legally reliable procedures for negotiating wages and working

conditions, something that promotes social harmony, one of the most decisive issues China will face in the future. Corporate social responsibility is becoming more important in China and German companies are carrying out more CSR-related projects. This can do a lot to promote understanding between Chinese and Germans.

Trust plays a central role in relationships and is sometimes lacking. How can we increase trust?

: We still have too little direct exchange between Germans and Chinese. Our social capital is not as developed as our extremely successful political and economic relationships, which is risky. If crises come up – and they always will – a lack of knowledge and lack of trust on either side may lead to emotional overreactions and prove disadvantageous to both sides.

What do I mean by that? We all know the surveys: More than 40 percent of the Chinese think that Germany contributes positively to the global community, and only some 20 percent of the Chinese see Germany's role in the world negatively. Unfortunately, when similar surveys are carried out in Germany, China is at the bottom of the list.

Why is that, and how can it be changed? We need to do more to promote exchange programs for students and scientists. There are 25,000 Chinese studying in Germany – not a bad start, but their number is rising much more slowly than the total number of students in China. The number of Germans studying in China and seriously learning the Chinese language, is far less than what it ideally should be.



Of course, the media play a crucial role in how we see each other. There are relatively few German-speaking correspondents in China – too few, given China’s importance in the world. We need more comprehensive reporting on China. And it goes without saying that journalists must not be hindered in their reporting.

Tourism has been among the most successful areas of German-Chinese cooperation in recent years. This too can increase social capital. Many Germans who used to have a rather stereotypical view of China are surprised by how colorful, modern and diverse Chinese tourists abroad are. For this trend to continue, we need to make it even easier to get a visa, something that applies to both sides.

Yet trust also requires transparent rules and institutions. We expect that the rule of law and protection of human rights, two areas requiring improvement, will be strengthened as part of China’s reform efforts. Protection of intellectual property, the various issues relating to joint ventures and the awarding of public contracts – from which foreign companies appear to be excluded de facto, though not de jure – also remain areas of disagreement. We hope we’ll be able to work with our Chinese partners to improve the regulations in place here, especially in terms of how they are applied. That would undoubtedly improve the trust German companies have in China.

China and Germany both face the question of how the business community can and should help address social challenges. What contribution is Germany hoping for from Chinese companies?

: Chinese companies are welcome in Germany. Germany is open

to investments. Studies show that when Chinese partners invest in German companies it has a very positive effect on the enterprises. They also show that such investments have helped secure many jobs.

China has become the globe’s third-largest investor. As Chinese companies increase their investments abroad, it can be assumed that China will also become increasingly active in common efforts to define the global framework. Taking an active role in the WTO and helping develop international standards are areas in which China can assume greater responsibility, which will of course also benefit Chinese companies.

What is your vision for German-Chinese relations in 2030? Where do we have to start today to reach this goal?

: I hope that by 2030 we will have overcome stereotypes on both sides, thanks to in-depth exchange, comprehensive reporting and having many more German speakers in China and Chinese speakers in Germany. I also hope that by 2030 we will have developed a “partnership of trust” between the two countries and the people living there. I hope that we will be able to defend and expand the most precious resource our two resource-poor countries have at their disposal: an open global order based on rules in which conflicts are dealt with peacefully through procedures accepted by everyone. A “partnership of trust”, a partnership of equals, would be a vision worth pursuing.

COMPANY CASE STORIES

BAYER
FREUDENBERG
KRONES
SAP
SCHENCK
START UP FACTORY
VOITH



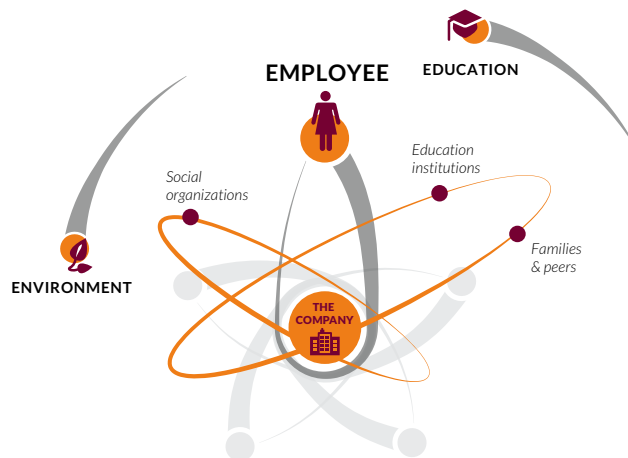


CASE STORY

BAYER

FROM FRINGE TO CORE

Tzeng Hui-Min, Sustainability Manager
Yuan Boyong, CSR Manager



THE SOCIETY CHALLENGE

In the last decade, the business environment for foreign companies in China has changed profoundly. Competition is very intense and companies are under much greater scrutiny by customers and the public. People are demanding business practices that are more sustainable and contribute positively to China's development. As a result, **the key challenge at Bayer is demonstrating that not only do we have business interests in China, we are also dedicated to helping solve some of China's most pressing social issues.**

COMPANY APPROACH

Luckily, our core products relate directly to three of China's key issues: climate change, universal healthcare and food security/safety. In the field of environment and climate change,

we offer solutions that increase energy efficiency in the areas of construction, light-weight mobility and high-quality, durable materials. In terms of public health, we provide solutions using our healthcare products. Finally, our crop-science products and services are helping advance food security and safety.

This is a good starting point, but of course we want to contribute to society beyond our immediate business activities. As a leading multinational company, Bayer is engaged in a variety of Corporate Social Responsibility (CSR) initiatives, with projects ranging from disaster relief to education and sports. Here are two examples:

In 2007, we founded the Bayer China **Volunteers Association** (BCVA) as a means of helping our employees get involved. We wanted to create a platform that allows them to initiate projects

they care about. Every year the company also grants each employee two days of volunteer leave to encourage greater community engagement. Projects carried out by each of BCVA's six chapters are organized by volunteer champions, which enables a high level of ownership by the employees. Today, the association comprises 3,000 members throughout China and organizes more than 600 activities every year. So social responsibility at Bayer is really addressed by the overall organization, and does not only rest on the shoulders of the CSR manager.

Another area of engagement with society takes place through our science-to-business cooperation. As an inventor company, Bayer has strong partnerships with universities. On the corporate level, Bayer endows several strategic academic chairs. Prime examples at **Tongji University**

The concept of "volunteer" was first brought to China by UN Volunteers in 1979. Before that, there was no terminology for non-paid work providers, since this was considered as a taking-for-granted way of serving communism.

志愿者

zhiyuanzhe -
volunteer

Shanghai's Tongji University, originally founded in 1907 as a medical school by German physicians, is a leading Chinese university and one of the most prominent cooperation partners in Sino-German higher-education exchange. It hosts the „Chinesisch-Deutsches Hochschulkolleg" that has

25
CHAIRS

sponsored by companies, most of them German.

EMPLOYEE

SANDY SONG
employee volunteer who has worked at Bayer for four years



Bayer takes care of its employees by supporting labor union activities and providing good benefits. It has a good corporate culture and addresses social issues such as education and the environment through volunteer activities. My main concerns in life are currently career development and the quality of the environment – our water, food, air.

in Shanghai include the Bayer Chair for Sustainable Development, the Bayer Chair for Intellectual Property Rights and the Bayer-Tongji Eco-Construction Academy. Given the hypercompetitive search for talent in China, Bayer has also endowed a Chair for Leadership at the China Europe International Business School (**CEIBS**), in addition to other academic partnerships throughout the country.

Together with our academic partners, we also explore multi-sectoral collaboration. The annual Bayer-Tongji-UNEP Sustainable Development Forum is one such platform exploring the possibilities among academia, industry and NGOs.

THE VALUE ADDED

The company benefits from the employee loyalty that results from the pride of working for an organization actively engaged in society. This helps our company image and overall employer branding. BCVA activities are also seen as a personal development process for our employees.

CEIBS is the flagship project for Sino-European cooperation in higher education. It was founded in 1994 as a joint venture under an agreement between China's Ministry of Foreign Trade and Economic Cooperation and the European Commission. It is by now China's leading business school, with three programmes globally ranked by the Financial Times.

Community engagement exposes employees to societal issues and enables learning within the Bayer organization. During earthquake-relief efforts, for instance, volunteers identified a specialized medical need that Bayer could fulfill. Bayer's subsequent emergency-relief packs all included this product.

LESSONS LEARNED

A robust structure is needed to drive social engagement throughout the organization. At Bayer, this means we have a central strategy, along with decentralized activities that are locally developed and adapted.

Another important issue is government relations, since the authorities may want to be informed about and involved in the full range of our activities. In addition, productive initiatives that offer solutions and have a positive impact on society can be very helpful in building good government relations.

IDEAS FOR THE FUTURE

CSR has been and to some degree still is a secondary topic. At Bayer, however, our CSR expertise is increasingly in demand by all business units and functions. For example, when complying with responsible business practices, our colleagues ask how they can responsibly manage their relationships with suppliers and distributors. CSR is moving from fringe to mainstream and is becoming a recognized part of a company's "soft power."

KEY FIGURES

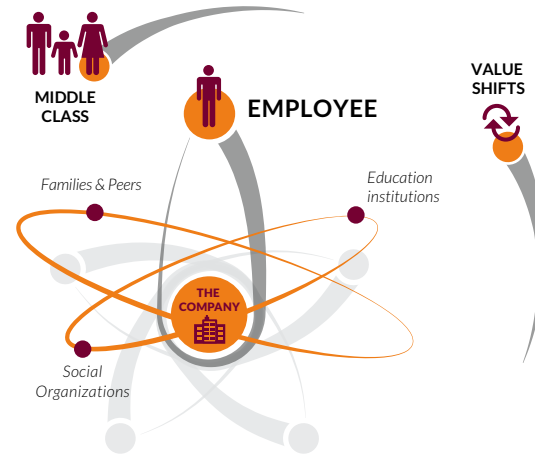


CASE STORY

FREUDENBERG

A CULTURE WHERE PEOPLE CAN GROW

*Bettina Schoen, General Manager
Freudenberg Management (Shanghai) Co., Ltd. &
Regional Corporate Center Asia*



THE SOCIETY CHALLENGE

Talent retention is a key strategic goal for us. As employee expectations are rapidly changing, we have to better understand what these expectations are and to which extend they are driven by socio-cultural factors. This goes far beyond what we traditionally describe as intercultural management. Ten to 15 years ago, it was highly attractive for Chinese employees to work for a foreign employer. Nowadays, however, Chinese companies have become attractive career path choices themselves – a fact that additionally heats-up the already hot labor market. Is pride about the „made in China“ the reason for this increasing attractiveness? At least we can assume that the higher level of cultural consensus and a “home-feeling” are valid decision criteria for Chinese candidates. Anyhow,

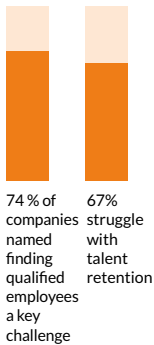
hard-facts need to be considered as well. One is the attractiveness of high-tech working environments and here German companies could improve – as essential R&D often still takes place mainly in Germany. **So the key question for us really is: How can we understand and respond to employee expectations that are constantly influenced by a rapidly changing cultural and social environment?**

COMPANY APPROACH

An important finding for us was that we need a specific Chinese HR-approach. An approach with a strong focus on providing perspectives – in regards of personal development, career opportunities and by providing challenging tasks. So, talent development became a keystone in our HR-strategy. We run several HR development programs. The

Freudenberg Leadership Development Program Asia is just one of many: a two-year program with seven modules that is targeted towards high potentials who have been with us for at least three years. Another development program is for employees who have been with the company for ten to 15 years. Providing perspectives includes also the time after work life, i. e. through our supplemental company pension program for employees who have been with us for more than ten years. Top Management support is indispensable. Being a family-owned company Freudenberg values tradition, stability, long-term orientation, mutual **trust** and loyalty. Chinese people appreciate this approach. It creates a feeling of security – a factor that compensates the pressure particularly younger people face in China. Taking

According to the 2014 Business Confidence Survey of the German Chamber in China:



The Great Sichuan Earthquake on 12. May 2008 killed almost

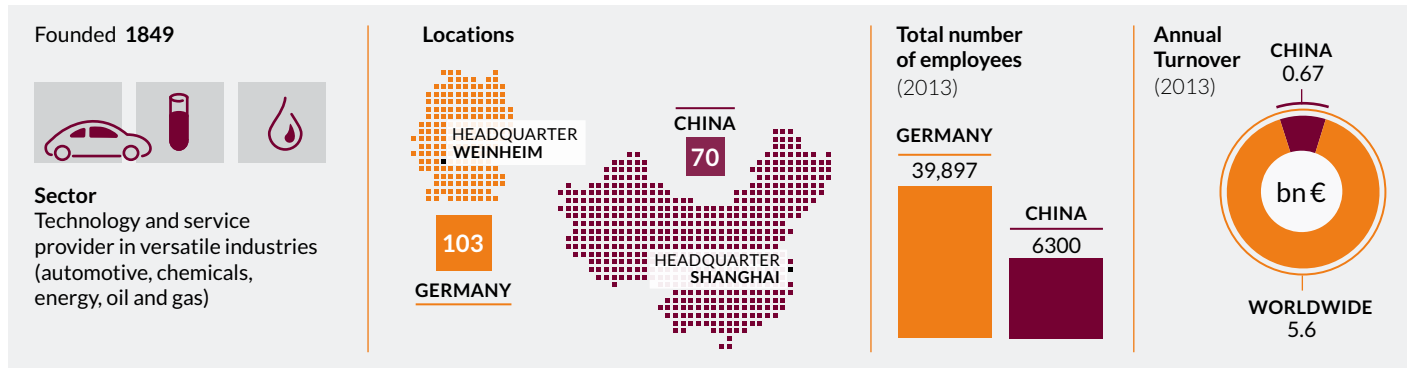
90,000

people. It was a turning point towards raising awareness for collective social responsibility in China.

信任

xin ren – to trust

KEY FIGURES



responsibility beyond the value chain also creates confidence. After the ***Sichuan Earthquake in May 2008***, we decided to rebuild a school with donations from our employees and the company, and we still support it today. We now have a yearly one-week summer camp, where Freudenberg employees organize summer activities for the students. Employees take part of their annual leave to participate in and many also involve their families.

THE VALUE ADDED

By involving our employees in our social activities we create a common approach towards community responsibility and foster employee loyalty. This approach perfectly reflects our responsibilities as a good citizen. A distinct company culture is fertile ground for future business operations.

In other words, it aligns social responsibility and economic responsibility.

LESSONS LEARNED

The empathy of the German top management in China for our employees and their concerns also includes a cultural competence that goes beyond mere functional management competence. Walking the talk. Values need to be practiced by top management, and reinforced through a direct relationship between the German leadership and managers in China, including middle-level managers.

IDEAS FOR THE FUTURE

One idea I personally like to pursue is a tailor-made and industry-specific executive program, something like a mini-MBA for our business sphere. I would

like to jointly initiate it with two or three other German companies. While we at Freudenberg already have a very good basis for nurturing collaborative management within our group, there are still many synergies to tap with regard to vocational training and learning. Another area is our so-called global TANNER program. It's an exchange program for Freudenberg family kids, who can travel the world and stay with other Freudenberg families. Quite a few Chinese families have already taken advantage of this opportunity, but we are poised for more. The initiative could be complemented by an education program for the kids of Chinese employees working at German companies in China.

EMPLOYEE



JAMES WEI (42)
Executive Assistant to the Board of Management

I have been working with the Freudenberg Group for 17 years now, basically since I graduated from Tsinghua University in Beijing, where I did my MBA. I was fortunate enough to start my professional career by completing a trainee program in Munich at Klüber Lubrication (part of the Group) during my first 2 years at the company. Of course that created strong ties to Germany. After various positions in sales, marketing and general management, I now assist the Group's board of management on strategic project work. I am currently preparing to relocate with my family, because I am starting a new assignment for Freudenberg at a different business site. Mobility is a new freedom, and a career opportunity, but it's also a new challenge.



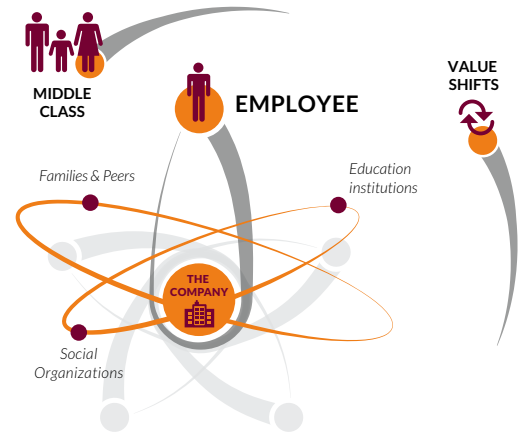


CASE STORY

KRONES

EMPOWERING EMPLOYEES

Claudius Wolf, Chief Operations Officer at Krones Machinery (Taicang) Co. Ltd.



Also referred to as
“**Generation Y**”
or
“**Generation
1990s.**”

THE SOCIETY CHALLENGE

Value shifts in Chinese society have led to changing employee expectations. The **younger generation** has become impatient and difficult to satisfy. They are eager to learn, but as they become more self-confident about their knowledge and skills, they are developing a more demanding and discerning attitude. For a company like Krones, this challenge translates into ever-rising salary expectations. In the Taicang area, salaries increased annually by 10 percent in recent years. **Our main challenge is therefore to provide employees with attractive working conditions and career development opportunities.**

COMPANY APPROACH

Beyond providing fair compensation, Krones puts an emphasis on employee empowerment and creating a **culture** of trust. This is key for the company worldwide,

but especially in China. By employee empowerment, we mean not only information and communication, but also actively engaging our employees at all levels in strategic decisions affecting the company.

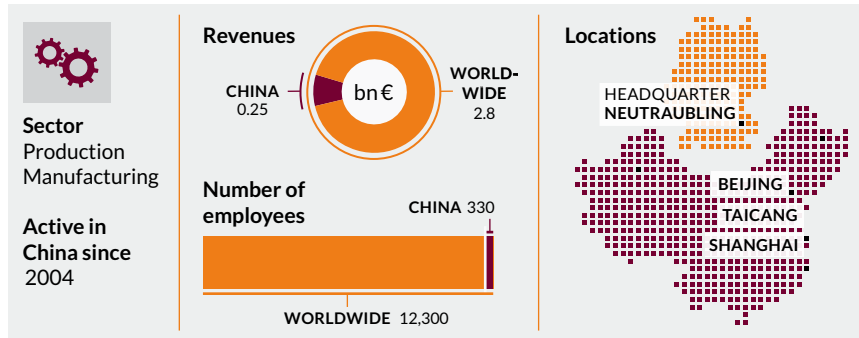
These activities transcend national borders. When Krones first made the decision to invest in China in 2004, worker representatives from Germany were invited to China to visit the potential investment sites. The management wanted them to understand and support the strategy, as well as the implications for the German headquarters and the company's worldwide operations. Likewise, many Chinese employees want to feel they are part of a global company. Therefore, we started a program where employees can apply to be transferred to other locations for a period of up to six months. This enables knowledge transfer among our subsidiaries and empowers employees.

Our aim is to grow long-term roots in China, and we show our Chinese employees that this is the case. Our strategy is “local to local.” We are working on putting our China operations increasingly into the hands of Chinese employees, constantly reducing the number of expatriates. It's important for us to show our employees that they are all part of the company's success and that their voices are heard. For example, we encourage all employees to actively participate in the various meetings and events organized by the Taicang Roundtable (TRT), a platform of some 70 mostly German invested companies that discusses business matters, but that also engages in social projects. We also support social engagement within our own company. For example, after the 2013 earthquake in Ya'an, our employees collected donations and the company added to them.

企业文化

qiye wenhua -
company culture

KEY FIGURES



EMPLOYEEE



HUANG XIAO-DAN (PAUL) (31)
team leader of the mold workshop

I have been working for Krones for six years now. What is special about working here is that it's like a big family! My key concern is people: how to care for people and promote respect.

Next to creating a trust-based culture within our company, we also believe that acting outside the company gates and anchoring in the community and city around us are important to our success. It is necessary to make Taicang attractive so that employees are willing to stay here. This is why we have actively developed very close relations with the city of Taicang. Officials seek our advice on issues like infrastructure and housing. Our experience is that it is better to employ people from the same province, people who are not living too far from their hometown. These are the employees who will work longer and more wholeheartedly in the company and provide training to our next generation of workers. Currently, we are planning to further engage with schools in Taicang in order to offer vocational training for future employees. In addition, we run a program in cooperation

with the German Chamber of Commerce in Wuhan at the Hubei Light Industry Technology Institute and at the Changzhou Institute of Mechatronic Technology, where approximately 20 students per year go through a vocational training program that we have jointly developed. Ten to twelve of those students are going to be employed at Krones. The majority of the others go on to work for our clients.

THE VALUE ADDED

Having a very stable team over many years is the programs' key value added. The various activities and programs empower employees while increasing their loyalty to the company. We have a remarkably low turnover rate, **4 percent**, which is largely due to the constant investments in our employees' personal and professional skills.

Average employee turnover in China is around

19%

compared to

5%

in Western countries.

LESSONS LEARNED

The key to success is attracting the right people, developing them through effective training and empowering them to take more responsibility. Everything has to match this strategy and be honest and authentic. This means we even helped an employee who had to leave Taicang for family reasons to find suitable work in their new location. This approach can be very rewarding when you see how people react, grow and give back to the company.

IDEAS FOR THE FUTURE

One idea would be an increased cultural exchange between Germany and China. This could take the form of having a summer camp for Chinese and German children, or by having German families host Chinese children for a while.



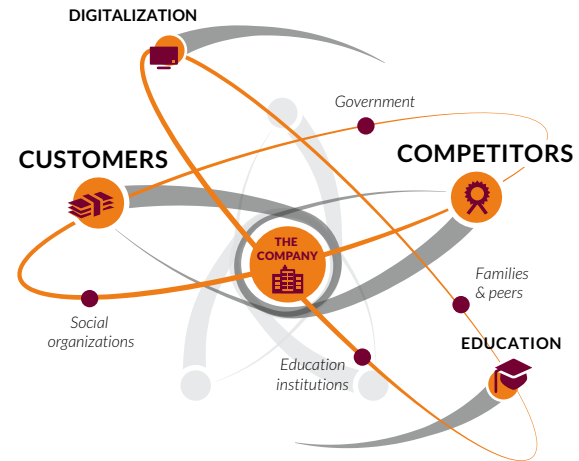


CASE STORY

SAP

SOCIAL ENTREPRENEURS AS INNOVATION PARTNERS

Clas Neumann, Senior Vice President, Head of Global SAP Labs Network and Fast Growth Market Strategy Group



THE SOCIETY CHALLENGE

SAP's technology extends to many areas of daily life. It is important for us to understand social needs and the new ideas and innovations that can improve people's everyday lives. One way we think SAP has a huge potential to benefit China's goal of improving civil society is by creating more sustainable business practices - business practices that benefit employees as well as the company itself. This goal goes hand-in-hand with the Chinese government's focus on building a fairer society. The potential for us to have an impact in China is therefore quite large. ***A key challenge for SAP, though, is to match our innovative capabilities with what is needed by a particular society so that we can bring about meaningful change.***

COMPANY APPROACH

We believe that social and business innovations need to go hand-in-hand and we distinguish three areas of engagement within SAP to foster this. The first area is that we provide our employees with a social sabbatical so that they can volunteer and spend paid time-off in ***social organizations***. The second focus is to help level the competitive playing field through technology, for example, by making SAP technology available to NGOs and the non-profit sector. And third, we invest in programs and start-ups that are socially oriented, such as projects carried out by ***social entrepreneurs***.

This last area is a particularly exciting one for us, and there are many social entrepreneurs out there who have excellent ideas. For example, in China we worked with the founder of Buy42, China's first online charity shop.

shehui tuanti - social organizations
Officially non government organizations in China prefer to be called "social organizations" since in Chinese the word NGO carries a whiff of "anti-government.". China has over 500,000 NGOs that are formally registered with the state and an estimated 1.5 million more that are not registered

社会团体

The notion of social entrepreneurship was first brought to China in 2004, when the book „How to Change the World - Social Entrepreneurs and the Power of New Ideas“ by David Bornstein was translated into Chinese.

During their social sabbatical, our volunteers supported this organization with their expertise in marketing, sales and IT. Such projects give us insights for our own business. It is not that we don't have great ideas within SAP, but societal innovation is happening outside the company in areas where SAP is not yet active.

This strategy of corporate ***social innovation*** is something we are implementing successfully around the world. In India, for example, we saw that most retailers don't use cash registers. The sales transactions and bookkeeping are carried out on a piece of paper. This left us wondering if we could develop something for them that could improve their lives and grow their businesses. As a result, we developed a mini cash register with no keyboard, just symbols that link to the shop's producers

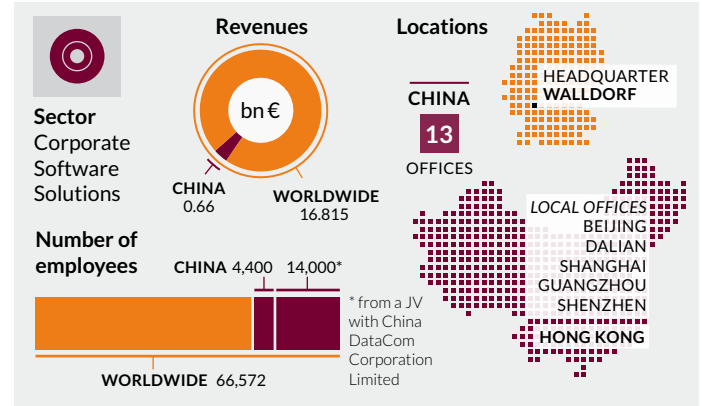
EMPLOYEE



JESSICA (30)
quality specialist, volunteer co-organiser SAP Friday Market

I am the co-organizer of the so-called Friday Market at SAP. It is a flea market that takes place on the last Friday of each month. SAP employees can sell or buy second-hand items. Or they can just donate used items. The donations are given to social enterprises such as Buy42, Futian and other public assistance groups. For me, working at SAP means having a stable job and a nice work environment, demonstrating my abilities at work and also doing something for society at large. Environmental pollution really worries me. I am afraid of food safety issues that lead to diseases, especially cancer. In addition, the haze experienced in many cities last autumn was very scary.

KEY FIGURES



社会创新

shehui chuangxin - social innovation

and distributors. These producers can then send new supplies automatically to the shop. The shop owners only pay \$1 per month for this service and the machine is available through their telecom provider. The main source of funding comes from the producers themselves, and not the shop owners, since the producers want the sales-related data. So everybody wins, including SAP, because we believe that this model will eventually bring us revenues too.

In addition to the technology, SAP has started a social inclusion project which we are using to hire people with autism to work at the company. We intend to employ at least 100 people with autism around the world as part of the program. This not only adds to the diversity of values within our company, it also enriches our skills profile. In software development there are certain

steps in the development process during which individuals with autism can be much more effective than those without (software testing, for example).

THE VALUE ADDED

Integrating social and business innovations benefits society and SAP alike. In our experience, social investment and engagement contribute to innovation and the acquisition of new customers, especially in fast-growth markets like China and India. By supporting our employees as they engage in social projects, we enhance the meaning they find in their work. Since a company's social activities are an important element in employer rankings, we are certain that they will positively affect our ranking.

LESSONS LEARNED

Social engagement is a leadership task. It is the leadership team that has to embed a culture of social engagement into the overall growth strategy. Social engagement also needs to be adapted locally in every country. An aspect that is unique to China is the role of government, which is very active, wanting to be engaged and understand exactly how the company is contributing.

IDEAS FOR THE FUTURE

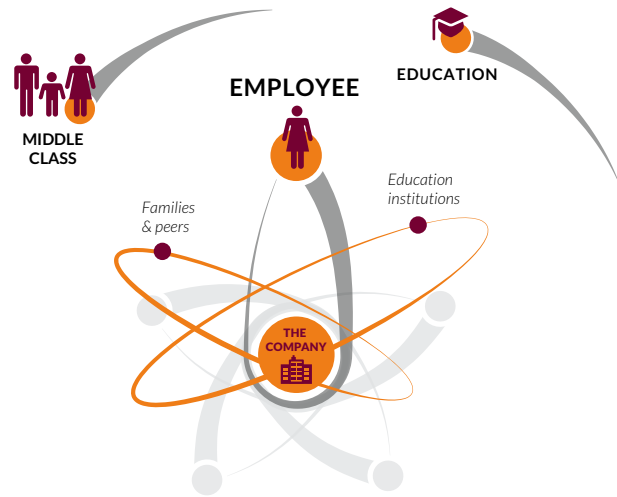
For the German business community at large, launching a Social Entrepreneur Summit in China would be a worthwhile investment. Strategically connecting with social entrepreneurs in China is an excellent way to stimulate innovation and benefit the Sino-German business community and its relationships.

CASE STORY

SCHENCK

SUPPORTING CRAFTSMANSHIP

Peter Legner, CEO & President Schenck Shanghai Machinery Co., Ltd



THE SOCIETY CHALLENGE

There are three major social challenges that impact our business in China. First, the demographic challenge, a result of the one-child policy, is putting ever increasing pressure on children, parents and young employees. Second, urbanization and increased migration throughout the country have eroded the traditional structures that provide social stability. In the past, China's social stability was very much built on the "work unit" or danwei, which provided people with a life-long safety net. This system was dismantled in the 1990s and the country has yet to establish a new social security system. For companies, the lack of such a system has made retaining employees a challenge. A third major problem is that, given increased living standards and more sophisticated attitudes, fewer and fewer people

are choosing a skilled craft as a career path. Such careers were never as popular among Chinese as jobs that require a university education, but the situation is getting worse. **Therefore, finding manually skilled workers is a key challenge for our company and for peers in the industry.**

COMPANY APPROACH

There are two approaches currently being discussed and applied in our industry. First, automation is increasingly seen as an option by my peers. They see it as a necessary direction to go in, not because they favor automation per se, but because of the lack of skilled workers. They view it as a proactive way of responding to the problem. Second, we are actively taking the initiative by creating opportunities in the area of vocational training and skilled tra-

des. Schenck is supporting two vocational training projects, one run by Shanghai Bavarian Vocational Training Consulting Company, the other by the Shanghai Electronic Information Technology College and the Hanns Seidel Foundation. Our engagement currently takes the form of providing funding of about €30,000 a year and organizing a training program within our company. We also serve as advisers when it comes to needs assessments from the point of view of industry. The project by Shanghai Electronic Information Technology College and the Hanns Seidel Foundation was set up in 2010 in Pudong. We have established a "Schenck Class," and the training includes mechatronics, electronics, metal processing and tool-making. Each year, about 20 of our trainees complete their qualification in both programs. We currently offer

on-the-job training alongside the classroom experience; however, we want to go further in the future and offer a systematic, fully integrated approach that combines theory and practice. Next year we will establish a training center in our workshop, which will focus on further on-the-job education for trainees in both programs.

THE VALUE ADDED

The value added is obvious: As a company, we need a skilled workforce, and society needs opportunities in the area of vocational education. Our social footprint will be bigger if we cooperate with institutions outside the company rather than just catering to our own needs internally.

LESSONS LEARNED

In my 20 years in China, two success factors have proven



**YURONG
(CONNY) KANG**
(45)
Director of HR &
Administration

I have worked for Schenck for 15 years. Although the company has more than 600 people, we still manage to maintain a 'family-like' atmosphere. We have an excellent inter-company communication system and encourage active participation by our employees. I think my strongest character points match the German virtues: punctuality, precision and reliability. I therefore feel very comfortable working for a German company and see myself as being sufficiently appreciated. My personal passions beyond work: travelling and photography. I always dreamed of being a travel journalist, something I might do after my active professional career.

玩

wan - to play
The Chinese term for "playing" is and it carries a strong connotation of something really fun and enjoyable.

忠诚

zhongcheng - loyalty

key. First, leading by example. You need to be a role model for leadership. Of course this includes being authentic. Second, being innovative, which for me means engaging and fostering idea creation among all employees. Many people incorrectly think that Chinese are not used to being creative and to taking the initiative based on their own ideas. However, the Chinese passion for **"play"** is a very conducive to applying creative and participatory tools in business life. If you want to keep your engineers, you need to give them room to "play" professionally. The biggest pitfalls? Probably not becoming **over-confident** when it comes to **loyalty**. I was once very disappointed because I thought I had given a talent all the chances needed to grow with us. But many young career-eager Chinese have this false notion that "working for the big

brands" is better than working for a lesser-known SME. I had to learn that whatever value and opportunities I had to offer could not compete with the big-brand temptation. Unfortunately, job-hopping in China is still rather the norm.

IDEAS FOR THE FUTURE

One idea is to cooperate more with the German Fachhochschulen, the Universities of Applied Sciences, which are also running interesting projects in Shanghai. For example, **Chinesisch-Deutsche Hochschule für Angewandte Wissenschaften (CDHAW)**, under the leadership of Mannheim University of Applied Sciences, has an interesting approach. I think the approach used by the Fachhochschulen still offers more potential for partnerships with German SMEs, especially since vocational education is becoming less popular as a career path.

CDHAW is a partnership between Shanghai's Tongji University and

25

German universities of applied sciences (Fachhochschule). It offers four double-bachelor programs in automotive engineering, building technology, mechatronics and industrial engineering. It currently has 35 company partners, among them Bosch, Continental, Duerkermotoren, Festo, Schott, Shanghai Volkswagen and Trumpf. China's National Ministry of Education wants to transform 600 Chinese universities based on the model of the German Fachhochschule.

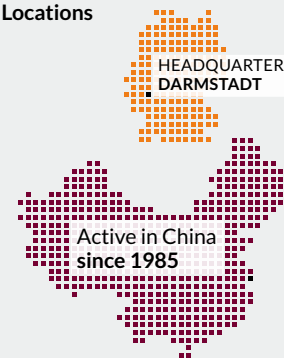
Founded 1881



Sector

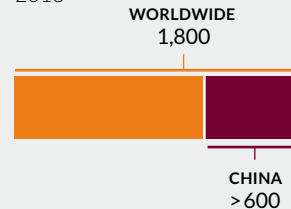
balancing & diagnostic systems
cleaning & surface processing systems
final assembly products
filling systems

Locations



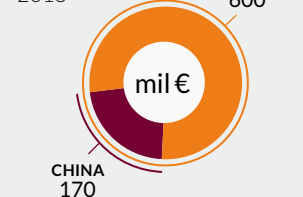
Number of employees

2013



Revenues

2013





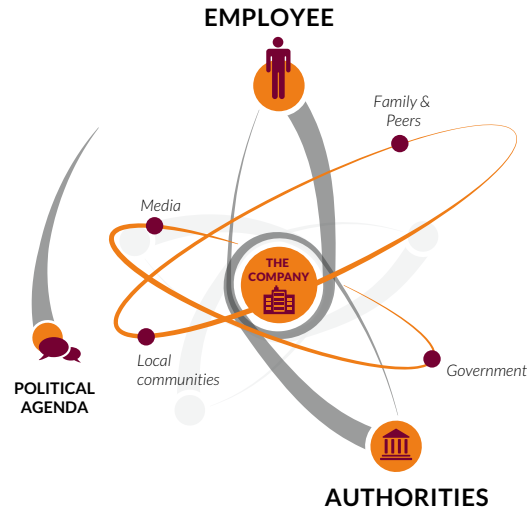


CASE STORY

START UP FACTORY

CARING IS KEY

Bernd Reitmeier, Founder & Owner,
Startup Factory (Kunshan) Co., Ltd.



THE SOCIETY CHALLENGE

Manufacturing companies are currently experiencing heightened scrutiny by local governments. In our location, **Kunshan**, a factory explosion in 2014, that left more than 70 people dead and made headlines around the world, authorities are under particular pressure to ensure that safety standards are enforced. They may resort to very drastic measures, such as closing down whole factories if they find the slightest case of irregularities - and foreign companies are not exempt from that. Therefore, exemplary compliance with regulations, as well as a strong focus on safety and quality are crucial. **So the challenge is to ensure transparency towards all stakeholders and demonstrate that your company is a good corporate citizen and workplace.**

Kunshan is an industrial hub one hour from Shanghai.



COMPANY APPROACH

Start up Factory is an incubator for German manufacturing companies in their start-up phase in China. Currently 24 companies share production facilities and management resources under one roof. Being a very young company, there are not many resources and capacity available for activities beyond core business, usually labelled as CSR. However, we want to show our employees that we care about them by creating a good workplace. From a nice working environment to hosting the families of the workers for an annual **'Open House Day'**, or offering Traditional Chinese Medicine (TCM) consultations at the workplace, the aim is to create a culture based on sharing resources and family values.

Good government relations are essential for any foreign company in China, but in our case particularly so, since the Kunshan government sponsors our project by providing land and factory buildings. Besides bringing investment and jobs to the city, our aim is also to support the local government by promoting higher standards, qualifying further workers and becoming a platform for further personal development with regular training offers for surrounding companies. Everything revolves around the question: What can we give to society in Kunshan beyond investment and jobs in order to maintain a very good image and gain continuous support?

Opening the doors for the public or employee families is rare in China, especially in factories.

EMPLOYEE

JENNY REN (28)
Vice Manager HR,
born in Kunshan



Working is an economic necessity. But a job should provide more than just an income. I am motivated by new experiences and working for a young and growing company provides plenty of that. Being entrusted with new tasks and being able to solve problems is what makes my working day rewarding and gives me a sense of achievement, meaning and satisfaction.

THE VALUE ADDED

Just like Start-up Factory's business concept is "sharing resources for production facilities", we hope to also share resources to work on social issues beyond our core business. Of course, being a successful and profitable business is always the bottom line. As mentioned above, in view of the current situation, such efforts serve as risk mitigation strategy as well.

Being known as a good workplace in the area helps us get qualified staff and further support from the local government. A high level of satisfaction of people also translates into business productivity. In view of the recent concerns of the local government, being proactive in engaging with workplace issues, showing best practice helps driving up the standards in the area or even the region as many media report on the good working conditions in Startup Factory.

LESSONS LEARNED

All activities should show that we care, and I like the notion of "***caring***". It is much more pragmatic, less heavily loaded with morality than the term "social responsibility". We care about our business, we care about our people, we care about the environment, and we care about the government and society. These principles are at the core of responsibility as an entrepreneur.

IDEAS FOR THE FUTURE

For the German business community at large, there is the potential for scaling up the efforts of individual companies and do something jointly. This should fit the mind-set of German SMEs. I believe in the small and easy ideas. For example: "Shared Car Commuting." Choose a day where you proclaim: All employees should come to the office in a car with four people. Nowadays,

关心

Guānxīn - to care for someone or something

25 percent of the employees have cars, but they come to the workplace alone. Start in your own company and then measure the impact of the joint action to communicate it as a collective German businesses action. How many tons of CO2 did German companies save through this activity?

A campaign for the German business community around the message of 'We Care' could be of strategic value, not only to communicate good existing practices, but also and especially catalyse sharing of ideas between the companies. A competition of good ideas could be part of this campaign, next to an award of existing projects.

KEY FIGURES



Sector
Production / Manufacturing

Founded 2012

EMPLOYEES

20



Annual Turnover

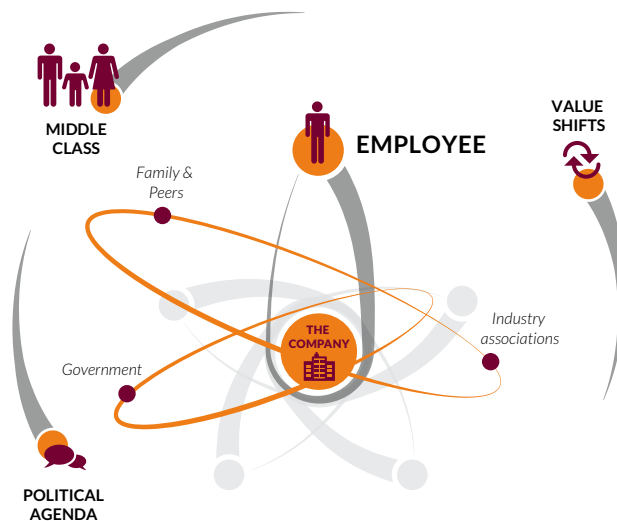
RMB
20
million
for
START UP
FACTORY

CASE STORY

VOITH

BRIDGING THE CULTURE GAP

Liu Mingming, Executive Representative of Voith Asia



THE SOCIETY CHALLENGE

China has become a major player on the global scene, economically and politically. In reality, however, the process of opening-up and internationalization is still very much in progress. That means, working intercultural, poses many challenges - on all sides. Yet in terms of leadership, a huge “competence gap” can still be found. Managing a company like Voith, which operates across different cultural and social contexts, demands considerable intercultural knowledge and sensitivity. I have spent my life in both China and Germany, where I have lived for 20 years. Personally, I find that German and Chinese culture are more similar than different. Nevertheless, understanding each other is hard work. On the German side, the fast growth of a company on the Chinese market is not

only a source of pride, but also sometimes also of concern, and this needs to be openly addressed. China’s booming market is not causing German companies to shrink, but offers new chances on the global market. On the Chinese side, there is sometimes a feeling of uncertainty how they are perceived by the German colleagues. In fact, efforts to help Chinese employees to develop professionally and to build trust, will benefit both customers and the company at large. ***So it is our challenge really to create a culture of mutual trust and acceptance, making it possible for German and Chinese colleagues to enjoy working together for the overall benefit of the company.***

COMPANY APPROACH

Company culture is really key, and our senior management has

made a priority of establishing company values that foster trust and cooperation.

As a German company, I think German heritage is key to our success, so I emphasize this strongly. Our Voith values are professionalism, **respect** for individuals, collegueship, openness, reliability and, of course, integrity. These values are also traditionally Chinese, but in today’s society they are not dominant. This is why German companies are so well respected in China - they represent values that Chinese people know they need. In reality, however, it’s not that simple. For example, openness means that Germans are often very direct, while Chinese people often prefer a polite, but rather indirect answer to a straight one. Yet if they work for a German company, they need to learn how to be direct. In my opi-

尊重

zunzhong - respect
The concept of respect in China also goes in hand with the concept of “giving face”.

EMPLOYEE

CHEN BAIHUI
(40)
Human Resources
Dept. Manager



I have been with Voith for five years. For me, Voith is a place that offers the possibility of achieving both personal and professional goals. As a department manager for HR, I try to be a role model for my colleagues. Above all, this means being passionate, being target-oriented and full of positive energy so I can contribute to the successful development of the company. My challenge is to win people over so they develop goals jointly and work hard as a team to execute and deliver.

nion, upholding German values and not compromising them is the core advantage that a German company has in China. This emphasis on German values has to be complemented by a willingness to trust Chinese employees. At Voith, we believe companies that want to develop and grow must be strong in local markets and must have roots in those markets. In 2014, Voith Hydro Shanghai was celebrating its 20th anniversary. Our localization efforts have taken place in all areas and processes of our business, including local engineering and manufacturing and promoting local talent to ensure future growth.

THE VALUE ADDED

Through this common understanding of the company values listed above, we create the feeling that everyone at Voith is

really a part of the global Voith family. This naturally benefits our business. And thanks to our values, we hope to be a good role model.

LESSONS LEARNED

My personal experience is that as a leader in the Sino-German business community, you have to approach challenges with an ***open mind and an open heart.***

tonglixin – “with head and heart together.”
This expression also refers to empathy

同理心

IDEAS FOR THE FUTURE

Today, many German companies have set up successful businesses in China. I think they should be more active in sharing their experiences with other German companies, especially those that have not entered the Chinese market yet.

KEY FIGURES



Sector
Mechanical
Engineering

Locations

CHINA

18

CITIES

HEADQUARTER
HEIDENHEIM

Number of employees

2013

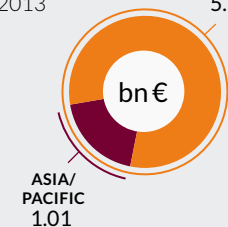
WORLDWIDE
39,000



Revenues

2013

WORLDWIDE
5.3



COLLA- BORATIVE CASE STORIES

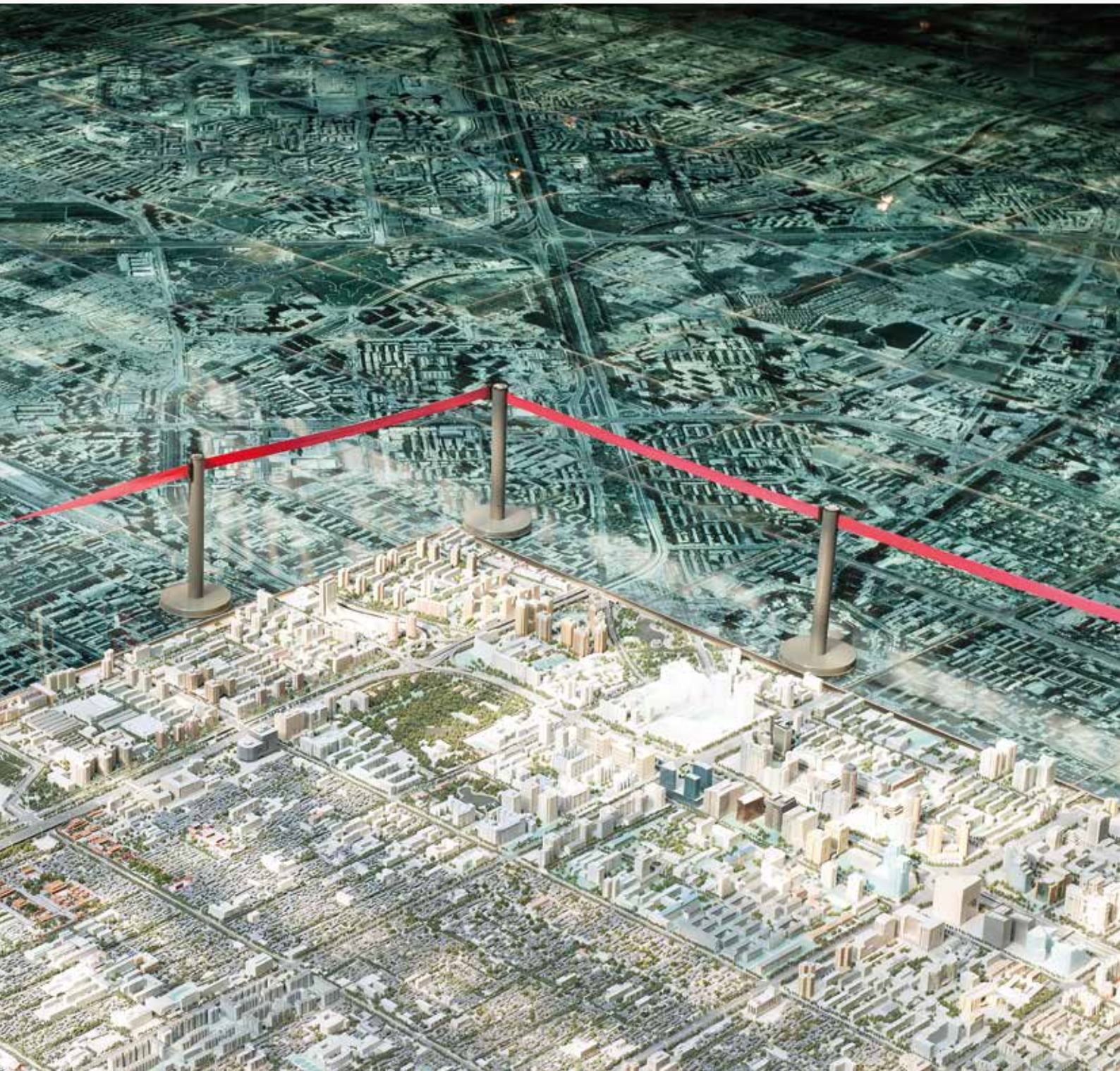
FAIR MARKETS INITIATIVE

SINO-GERMAN AUTOMOTIVE
VOCATIONAL EDUCATION

SINO-GERMAN VOCATIONAL
TRAINING CENTER

TRT CSR INITIATIVE



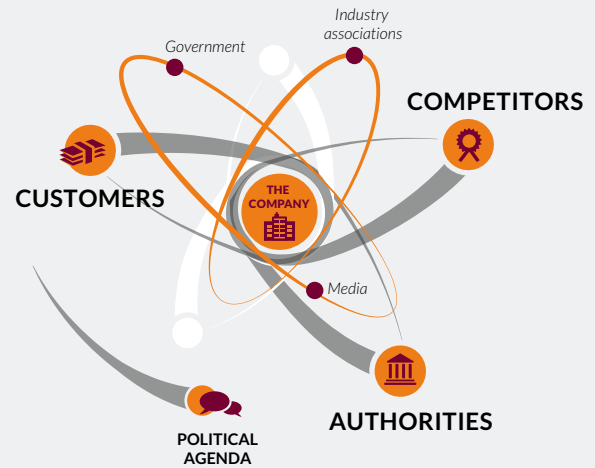


COLLABORATIVE CASE

FAIR MARKETS INITIATIVE

LEVELLING THE PLAYING FIELD

Thomas Reichenbach, Project Coordinator sequa gGmbH, Shanghai



THE SOCIETY CHALLENGE

Corruption and the lack of fair competition are severe problems for companies in China, especially in less developed parts of the country. Managers of foreign companies are often faced with a dilemma: If they actively engage in or turn a blind eye toward dubious business practices by employees and partners, they risk prosecution in China or even internationally. Yet if they stick to tough compliance standards, they risk losing business opportunities. **Supporting efforts to fight corruption and create a level playing field is therefore a core interest for foreign companies.**

COLLABORATIVE APPROACH

In 2012, a coalition of German industry associations teamed up with two Chinese organizations - the Hunan **Chamber of Com-**

merce and the Chengdu General Chamber of Commerce - to start the Fair Markets campaign. The objective was to create awareness among companies, government agencies and the general public. "Convincing Chinese partners to join was a tough job," says Thomas Reichenbach, the project's initiator and coordinator. "Many parties saw the project as improper, because they felt that it was not up to a foreign organization to address such sensitive, internal issues in China."

Yet Reichenbach was able to rely on a network of trust that he has built up over more than ten years as China representative of the German Confederation of Small Businesses and Skilled Craft (ZDH). ZDH is one of five industry associations that, together with GIZ, form Sequa, a project management company through which Reichenbach coordinated

the Fair Markets campaign. The \$1.3 million in funding was provided by the Siemens Integrity Initiative, which the company established after its own bribery scandal in 2008.

Together with the Chinese industry associations, workshops were designed to train small and medium-sized enterprises on compliance issues. Besides publishing a handbook on setting up compliance structures in companies, the campaign designed an innovative educational computer game. Based on case studies, the game lets employees navigate their way through 22 levels of challenges, such as how to fend off demands for bribes and how to detect suspicious transactions. Recommendations include bringing compliance issues to the attention of top management, documenting evidence of corruption and pursuing legal action. Companies were en-

腐败

fubai - corrupt

There about
3,000
entities of chambers
of commerce at different
administration
levels, with a total
of over two million
private companies as
members. The chambers
are represented
in the People's
Congress and the
Consultative Conference,
giving them a
certain influence on
legislation.

KEY FIGURES

FAIR MARKETS INITIATIVE



Area of Engagement
Compliance and
anti-corruption

Project start
2012 to 2014

Locations



Partner

sequa gGmbH
Siemens Integrity Initiative
GIZ
Chinese industry associations
Chengdu Chamber of Commerce
Hunan Chamber of Commerce
Local government agencies
Individual Chinese companies

Investment

US\$
2.8
million

couraged to formulate compliance standards for themselves and to take action, for example, by creating a position of Chief Compliance Officer or amending employment contracts to include a compliance clause. “Many companies hesitated to participate because they feared that compliance would bring about competitive disadvantages for them,” says Reichenbach. However, in times of intensive anti-**corruption** campaigns throughout the country, a commitment to compliance standards can also turn out to be an advantage. In the end, 300 companies adopted a seven-point compliance plan proposed by the Fair Markets campaign.

Finally, the project selected a number of companies as best-practice cases and showcased them in an exhibition that was publically exhibited in the buildings of industry associations

and local governments. This unconventional approach attracted considerable attention from the Chinese media.

VALUE ADDED

The Fair Markets campaign created a public-private partnership, bringing together industry associations, local government agencies and private companies. It also succeeded in attracting a degree of public attention and helping participants to identify challenges. “The partnerships created during the project can now continue to operate independently,” says Reichenbach. “This is a case of helping others to help themselves.”

LESSONS LEARNED

No individual player is able to single-handedly provide solutions for major social challenges such as fighting corruption. Building partnerships with all stake-

holders to create awareness may be an important step for improving the situation. Yet despite the success, there are severe limitations to this kind of grassroots approach. “In order to fight corruption in China, coordinated action by high-level institutions is indispensable,” says Reichenbach. For this reason, the issue of compliance and corruption should be addressed prominently in the Chinese-German policy dialogue.

IDEAS FOR THE FUTURE

German companies and industry associations could work with Chinese partners to introduce compliance standards in China that are challenging but not unrealistic. The standard used by Germany’s Association for Materials Managing, Purchasing and Logistics (BME) might be a model.

VOICE OF PARTNER CHAMBER



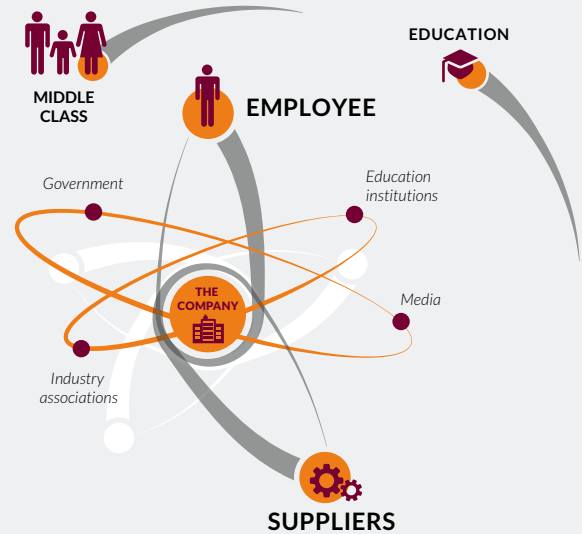
SUN MING
President of the
Chengdu General
Chamber of
Commerce

During the three years the project promoting integrity and fair competition ran, the Chengdu General Chamber of Commerce held 19 training workshops with 700 participants. It also added project content to various chamber events, specifically to a total of 108 events with 18,000 participants in 2013 alone. The chamber explored new ways to deliver the message to its subsidiary chambers and member companies by initiating a private-public dialogue with the local government, something that did not exist before the project start. In addition, it promoted an integrity awareness campaign driven by the subsidiary chambers. The work will be integrated into the chamber’s future efforts and will therefore be sustainable, although there is still a long way to go before we will have an environment truly based on fair competition.

SINO-GERMAN AUTOMOTIVE VOCATIONAL EDUCATION

BUILDING CAPACITIES FOR CHINA'S EDUCATION SYSTEM

Dennis Horch, Senior Project Manager SGAVE, GIZ, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, Beijing
Hans-Peter Faber, HR Development & Education Strategy China, HR, Organization & ITP Volkswagen (China) Investment Company, Ltd.



THE SOCIETY CHALLENGE

Traditionally, Chinese education focuses mainly on theoretical knowledge and top-down learning, during which giving answers is more important than asking questions. There is also a strong emphasis on university education. That means vocational education has mostly been seen as a second-choice career option. There is typically little or no standardized certification for the professional skills blue-collar workers in China need. “Not having enough qualified staff creates a real bottleneck, especially for high-tech industries,” says Dennis Horch, vocational education specialist at GIZ, the German international development and cooperation agency. One of the sectors particularly affected is the automotive industry. German car makers, who

Active in more than

130
countries,

GIZ is a federally owned German enterprise dedicated to international cooperation in the area of sustainable development. GIZ has almost 30 years of experience in Sino-German technical cooperation.

Volkswagen was the first large German company to invest in China. In 1984, it signed a 25-year contract to make passenger cars in Shanghai. Volkswagen became a stepping stone for many German ‘Mittelstand’ companies to enter the Chinese market.

also pride themselves on offering reliable service and maintenance, were left wondering *how they could keep pace with China’s fast-growing market without a sufficient number of well-trained mechatronic specialists.*

COLLABORATIVE APPROACH

In 2009, five German automobile companies – Audi, BMW, Daimler, Porsche and Volkswagen – joined forces. Until then, they had all been trying to solve the skills-gap problem by establishing their own internal training programs. An improved system of vocational education for car mechatronic technicians was an area of joint interest that they could approach as partners. After two years of planning and with support from the German

Ministry of Economic Cooperation and Development (BMZ), the Sino-German Automotive Vocational Education (SGAVE) initiative was started and was managed by GIZ.

The project’s goal was to create a network of 25 pilot schools with a newly developed curriculum that matched German car makers’ needs. It reflected the structure of Germany’s vocational educational system, which combines practical working experience with theoretical learning. As a result, students acquired practical competencies in school and in the maintenance workshops of the German brands’ dealers. The quality of the education was ensured by a series of examinations and certification was given for competencies acquired.

In theory, the vocational pro-

SINO-GERMAN AUTOMOTIVE VOCATIONAL EDUCATION



Area of Engagement
Vocational Education

Project start
2011 - 2014

Partners

Chinese Ministry of Education,
AUDI AG, BMW AG, Daimler AG,
Porsche AG, Volkswagen (China),
Investment Co. Ltd., GIZ, Chinese
Vocational Training Institutions

Locations

25 pilot schools
throughout China



Investment

3,9 Mio €
GERMAN
CONTRIBUTION



67%
financed by private
industry partners



GOU QINGWEI

Principal of the Automotive Engineering Department, Vocational College of Transportation, Beijing

The project SGAVE provided us with a great opportunity to learn about German culture. It was a challenging project. First, having five German

manufacturers cooperating on the same platform was in itself a challenge. Second, the project is a big challenge for China's traditional vocational education system, because our system focuses more on knowledge transfer and less on skills training. What we also learned from this German project is the need to focus more on the teaching of quality requirements, as well as teamwork and communication. However, we had more success than challenges. I am very interested in e-technology for cars and in new energy, and it would be great if we can extend the cooperation to these areas in the future.

grams in China last three years, as they generally do in Germany. In practice, however, things are different. "If one looks closer at the situation, one sees that, at the end of the day, there is only about half of the time available for the actual professional training compared to Germany," explains Hans-Peter Faber, head of Volkswagen's HR Development & Education Strategy China. "Furthermore, vocational training schools are often not sufficiently developed and cannot live up to their responsibility for vocational education in China. Thus, an important element in our program was the idea of 'training the teacher,' and we established Competence Centers for Teacher Training."

Getting all stakeholders on board wasn't easy. The Chinese dealerships were especially hard to

convince. "They wondered why they should engage in something that is not within their core business," remembers Horch, who implemented the SGAVE project. "What finally won them over was the argument that a supply of better-trained mechatronic technicians would help the automotive industry overall and thus also their own business."

VALUE ADDED

25 pilot schools have been set up. Currently 1350 students are in the program and 129 have successfully passed the SGAVE-exam. Up to 750 new students enter the program every year. "SGAVE really helped fill the skills gap and workers were provided with better jobs," says Faber. "Beyond that, our own organization has benefitted from the experience. For example, we have designed

further vocational training programs for other professions based on the SGAVE model."

LESSONS LEARNED

While the German automotive companies were the main initiators of SGAVE, putting the project management in the hands of GIZ as a neutral partner was key to its success. "The role of an honest broker is often underestimated in collaborative projects," says Horch. Another success factor was involving ministries from both countries and integrating the project into an official Sino-German platform for bilateral cooperation. It earned SGAVE political support and legitimacy, which are particularly important in China, where there is extensive government involvement in all areas of the economy.

IDEAS FOR THE FUTURE

Having developed a practical curriculum for car mechatronics in China, Horch now sees scaling the impact as the next challenge. "We hope that our model will be replicated and used in Chinese vocational schools that have no direct affiliation with a German car company," he says. A further field for action would be integrating the experiences into the curricula of vocational education faculties in China's universities, where the country's **vocational-training** teachers are educated. However, this would mean becoming much more involved in the Chinese educational system.

职业教育

vocational education
- zhiye jiaoyu





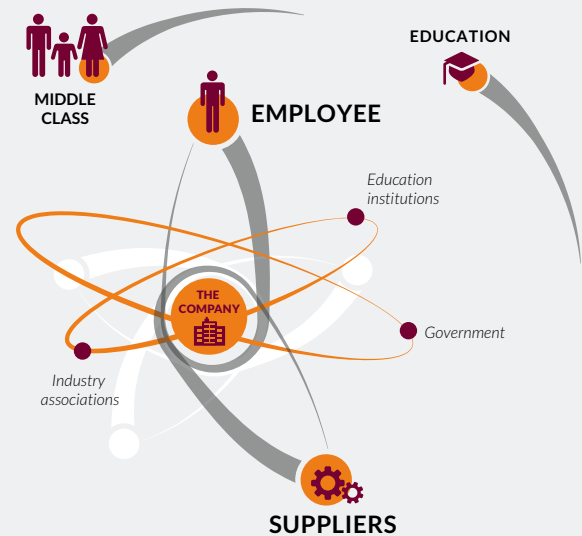
Lingshan Grand Buddha Temple, Wuxi

COLLABORATIVE CASE

SINO-GERMAN VOCATIONAL TRAINING CENTER

CREATING NEW CAREER PATHES IN CHINA

Britta Buschfeld, Director of Vocational Training AHK China;
Lisa Liu, Head of Corporate Communication at Festo Asia Pacific, Shanghai



THE SOCIETY CHALLENGE

The Chinese labor market is large, given the sheer size of the population, but there is an acute lack of technically skilled workers. This creates a situation where significant labor market shortages and unemployment are both present. The scarcity of skilled labor also makes it difficult to retain employees. Therefore, although skilled labor is in short supply, many companies hesitate to invest in training for their workforce. ***Finding strategies to close the skills gap is a core challenge for companies and society alike.***

COLLABORATIVE APPROACH

This is precisely the challenge that Festo, the German industrial automation company, experi-

enced when it acquired a Chinese company in **Jinan**, Shandong Province, in 2007. “The employees at that company did not have the skills we needed,” says Lisa Liu, Head of Corporate Communications at Festo in Shanghai. There was no local system of suitable vocational schools where the company could recruit well trained apprentices from. The idea was to partner with other German companies in the region, but it wasn’t easy to get them on board. The German Chamber of Commerce (AHK) acted as a catalyst and managed to bring together a group of seven companies, among them ZF Friedrichshafen and Stihl. The chamber also helped to shape the curriculum, consisting of theory and practice and reflecting Germany’s dual work-study

Jinan is the capital of the coastal province Shandong in north-east China. In 2013, Shandong was China’s third wealthiest province. Shandong is also well known for the cities of Qufu, the birthplace of Confucius, and Qingdao, a German colony from 1898 to 1919.

educational system. Since 2011, 70 apprentices have started the facility’s three-year program. “Designing and implementing such programs is a highly complex issue,” says Britta Buschfeld, Director of Vocational Training at the German Chamber of Commerce (AHK) in Shanghai. “All the different stakeholders in the process need to be aligned.” As it turned out, the training center not only provided skilled employees for the partner companies production, but also

became a regional model project for the authorities. In 2013, in cooperation with the Shandong Ministry of Education, the curriculum was expanded and the center started offering a two-week training program for college teachers from all over China as a way of scaling the concept. Festo decided to take a leap and invested RMB ten million to set up its own Festo **Vocational Training Center** in cooperation with a local vocational training college. It is a sophisticated center with a fully equipped workshop and lab.

VALUE ADDED

This approach benefits apprentices and companies in equal measure. “Social impact and the business really go hand in hand”, says Liu. In addition, engaging in

VOICE OF A GRADUATE

WU XIANGBO
(30)
of the first 28
apprentices to
graduate in July
2014



It didn't feel like much of an honor to join Jinan Vocational College, because my expectation was to enter university. But now I am very proud of who I am. In the past three years, we spent more than 50 percent of our time learning by practicing and running various projects. We've gained much hands-on experience, and I've learned the importance of teamwork. Now I am working on installing a CNC machine with my five classmates under the supervision of an engineer from the technical department.

vocational training gives companies a good name in their host communities. Officials and potential employees perceive them as responsible stakeholders. Demonstrating a commitment to the local community in this manner has helped Festo win the support of the authorities, a factor that is key to business success in China. But most substantially, this creates new career options and paths for young people in China.

LESSONS LEARNED

Setting up a vocational curriculum is complex and requires extensive cooperation. Companies need to be clear about their objectives. Overreaching in terms of requirements tends to be counterproductive. "If training contents significantly exceed the skills actually needed on the job, this will only demotivate employees," Liu adds. If done properly, however, the training goes a long way to increase employee retention. "People will want to

stay with you if you invest in them," she explains.

IDEAS FOR THE FUTURE

Many stakeholders are involved in the field of vocational training in China and their activities would benefit from greater coordination. Some pilot projects, such as the one in Jinan, have succeeded and can play a useful role as models. Enhancing nationwide exchange in the area of vocational training between experts, schools, companies and government officials would be a next step in aligning company needs and the education system on a larger scale. But more than that: The potential lies now with applying the approach and experience to other industry sectors, as Britta Buschfeld, explains. Among the new areas worth exploring for Germany is also the field „health-“ and „care-taking“ professions.

KEY FIGURES

JINAN SINO-GERMAN VOCATIONAL TRAINING CENTER



Sector
Vocational
Training

Project start 2011



Location

Partner

Chinese Ministry of Education
local government agencies on site
German Chamber of Commerce
(AHK) China
Festo
ZF
VOSS
Hydrometer
Continental
Stihl

Investment

RMB
10
million
by Festo

zhiye peixun - vocational training

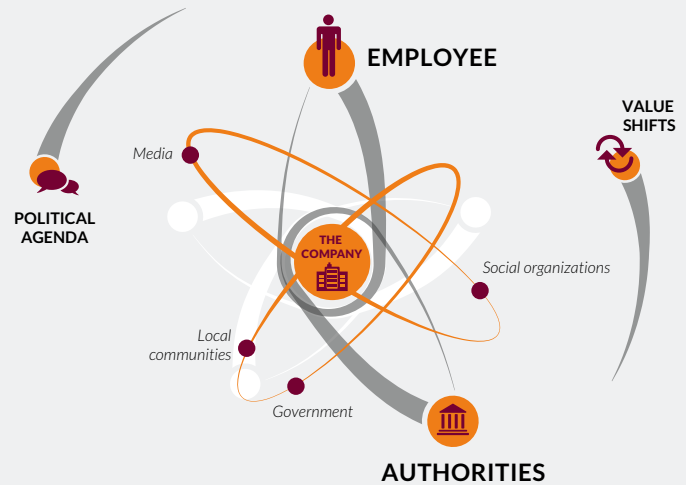
职业培训

COLLABORATIVE CASE

TRT CSR INITIATIVE

SOCIAL COHESION IN THE REGION

Thilo Koepp, Managing Director of Dunkermotoren Taicang Co., Ltd.,
Vice-President of PMC Asia AMETEK Inc., and
Co-Founder and Board Member of Taicang Round Table (TRT)



THE SOCIETY CHALLENGE

More than 80 million Chinese live with disabilities, a number equal to the population of Germany. Their needs are not generally treated as a priority. In addition, they lack job opportunities and often experience prejudice. Western companies can contribute to improving the situation by using their experience in the areas of economic and **social inclusion**. By doing so, they can not only improve the life of a disadvantaged social group, they can also win respect and support from the Chinese government. **The challenge is to find and mobilize all the partners, experts and supporters necessary for implementing the appropriate projects.**

COLLABORATIVE APPROACH

In 2013, the Taicang Round Table (TRT) – a coalition that now consists of 78 mainly German, Aust-

社会融合

shehui ronghe – social inclusion

While the term “social inclusion” often connotes “people with disabilities,” its meaning is broader. The World Bank defines social inclusion as “the process of improving the ability, opportunity, and dignity of people, disadvantaged on the basis of their identity, to take part in society.”

rian and Swiss invested SMEs in the **city** – approached local authorities with a plan to provide job training and employment for people with physical and mental disabilities. “We decided to become more socially engaged to show that we act responsibly in our host community,” says

Thilo Koepp, Board Member of TRT and Managing Director of Dunkermotoren Taicang Co., Ltd. However, the project, called the Taicang Handicapped Workshop, was not an easy sell. Social inclusion and training of people with mental disabilities are new topics in China.

One of the main partners is the municipal government of Taicang, which was persuaded to join, thanks to the high level of trust that already existed. TRT is a registered non-profit legal entity that has been active since its founding in 2006 building a good reputation for German companies. In 2007, TRT joined with the German Chamber of Commerce to establish a vocational training center for mechatronics and machine tooling, which now trains 100 skilled workers each year. In 2013, TRT collaborated with Steinbeiss University to start a Master of Engineering and MBA double-degree pro-

gram, with 28 young Chinese potential executives as the initial enrollees. TRT also plays a role in the social life of the city. One event it is involved in is the Oktoberfest, which draws more than 7,500 visitors each year.

These activities provided the foundation to embark on the more ambitious public-private partnership of setting up a workshop for people with disabilities. Under the partnership agreement, the City of Taicang is providing the workshop premises and necessary infrastructure. TRT, in turn, is supplying the know-how, equipment and operational management. The start-up investment of €250,000 and on-going operations are being funded through donations and production orders subcontracted by TRT companies. The project’s legal entity is a company registered in Taicang, the Taicang Sino-German Handicapped Technology Co., Ltd.. For expertise,

KEY FIGURES

SINO-GERMAN SOCIAL INCLUSION FACTORY



Area of Engagement
Social Inclusion

Project start
2014 (initial planning in 2013)

Official opening ceremony
March 26th 2014

Initiator

Taicang Round Table (TRT)

Legal entity

Taicang Sino-German
Handicapped Technology Co., Ltd.

Investment

250,000 €

Location



Partner

Taicang Roundtable (TRT)
Lebenshilfe e.V.
German Chamber of Commerce
Taicang Municipal Government
The Administration Committee of
Taicang Economy Development Area
Taicang Disabled Person's Federation
TRT companies
Dunkermotoren
Zollner Electronics
Oase
Mobildata
Rotary Club of Shanghai

TRT brought in a third partner, Lebenshilfe e.V., a leading German philanthropic association. One aspect of Lebenshilfe's approach is to run the workshops not as charities, but as profitable enterprises that can sustain themselves. In order to make this work in Taicang, TRT is providing the new workshop with a base of its own customers. "In October 2014, the project started with an assessment and training center screening 34 disabled people by a job coach from Germany. By January 2012 11 employment contracts were signed with disabled people. Koeppe says: "If all goes according to plan, there will soon be more. The current workshop can accommodate up to 40 workers." The services offered currently by the workshop: Manufacturing wire harnesses for TRT companies in Taicang and beyond. Koeppe emphasizes: „Our approach is to position the project not

as 'charity for helping people in need' but first of all as a reliable and customer-oriented choice for quality sourcing. We are a very modern shop floor, fully automated applying industry 3.5., and are currently working on a paperless system. Our vision "Creating China's 1st top quality Social Inclusion Factory".

VALUE ADDED

This project enables the Taicang government to experiment with new ideas for promoting the social and economic inclusion of people with mental disabilities. At the same time, it brings German companies closer to the local community, as well as to the government. "Today, the local government takes our input and advice seriously and is doing its best to generate a fruitful and hassle-free business environment for SMEs," says Koeppe. "Furthermore, TRT has generated greater social cohesi-

on within the local Sino-German business community. Being a socially responsible company gives you a competitive edge when people select their employer of choice."

LESSONS LEARNED

Collaboration is key to the success of this kind of project. "Persuasiveness and persistence were required to convince all stakeholders that this project is viable and worth the investment of time and money," Koeppe explains. "While some doubters still remain, the project is now a joint venture with the Taicang government and is gaining significant momentum."

IDEAS FOR THE FUTURE

A main challenge will be establishing the workshop as a financially self-sustainable enterprise providing high-quality products to its customers. If it succeeds, it will be a prime example of a

social enterprise whose relevance extends far beyond its local environment.

VOICE OF EMPLOYEE



AMANDA LI
Job Coach Assistant,
originally from Hubei
Province

I applied at Taicang Sino-German Handicapped Technology Co., Ltd. because I wanted to work in an environment where I was doing something for society, something with a deeper meaning. In China there is a saying: When you give someone a fish, you feed them for a day; if you teach them to fish, you feed them for a lifetime. I want to work in an environment that gives disabled people in China equal opportunities for self-fulfillment. I have never worked with people with disabilities before and am therefore a bit worried about how everything will work out. But I am confident that as long as I am open and patient, it will be fine.





At the Bund in Shanghai

IDEAS MATRIX

TOOL BOX



TRAINING & EDUCATION

EASY

PARTNERSHIP WITH UNIVERSITIES

Providing scholarships for less privileged students or sponsoring chairs

VOCATIONAL TRAINING PROGRAMS

Establishing dual education curricula with local training institutions

INTENSIVE



LEADERSHIP LEARNING PROGRAMS

Training and management learning journey designed to foster high potentials

SHARED TRAINING CENTER

Resource sharing among companies for training of employees



CAR POOLING

Encouraging employees to share their cars to come to work

JOINT ONLINE COMPANY PLATFORM

Bundling of efforts of several companies to share volunteer resources and access to NGO projects

SHARING OF ENVIRONMENTAL BEST PRACTICES

Regular seminars on standards, know how and solution for environmental protection and energy efficiency.



SUPPLY CHAIN QUALIFICATION

Training and support for suppliers



INTENSIVE

SAFETY & ENVIRONMENT

SOCIETY VOICES

HUBERT LIENHARD

FREDERIC SPEIDEL

ROLF H. KOEHLER

PAN TAO

ZHOU XIAN

HAN ZHENG

OLIVER YE YANG

JOSEF WIELAND

PHILIP LAZARE





HUBERT LIENHARD

CEO of Voith and Chairman of the Asia Pacific Committee of German Industries

THIS WILL BE THE ASIAN CENTURY



The rise of Asia is changing the global economic landscape. How?

: I am sure this young century will be the Asian century. By 2030, I see Asia as an important, if not the most important economic zone in the world. We will witness that the shift to Asia, which has already started, will accelerate in speed and develop its own dynamic. Asian regional integration is a natural by-product of Asia's rise, and partnership with Europe can help to keep Asian outward-looking rather than turning discriminatory. I am convinced that the Asian nations will develop their own and unique ideas how they will position themselves in the global concert of powers and that they will be deeply integrated into the world.

What are the social implications of this rise?

: By the end of the next decade, a majority of the world's population might be out of poverty, the Middle Class will be the most important social and economic actor Asia will enjoy a new power status. Global leadership may be shared, and the world is likely to be more democratizing, There will not only be a shift in the economic sphere

but in the political realm as well. This development is irreversible.

What does this mean for companies?

: A strong middle class is developing in many economies in Asia. Asia will become thus more and more important for its consumer market. Companies will start - and they even sometimes do so already - moving their R&D departments to Asia, to be close to consumers when developing new products. A stable middle class will also ensure long-term sustainable economic growth. In the future, Asian innovation will provide further added value to consumers and companies in Germany, Europe and other parts of the world. Companies and research institutes in Germany and in the Asia-Pacific, should jointly develop ideas for tomorrow. Global value chains will further foster the integration of economies across the globe. We should therefor increase our efforts with respect to bilateral and multilateral trade agreements. Asian and European companies will be increasingly intertwined. Asian investors, as majority shareholders of European companies will no longer be an

exception. Experience tells us that the creation of a level playing field is a precondition for lasting success.

How do German businesses have to adapt their strategy?

: We, have to accept the fact that the economic powerhouse Asia will gain further strength. We thus have to listen to, and understand our Asian partners to find projects where we can cooperate We should invest in technology, education, and exports. We can deepen Asia- Pacific relations and make it an economic policy priority. We should find the best way to deal with these changes on the global level. Our task is, in short, the management of this change. German Business has much to offer that could positively affect a sustainable economic development in Asia. This will, in turn, positively affect the overall development in Germany, in Europe and in Asia. It is not only high-tech equipment, innovation and German engineering. There is more, there is partnership and a mutual interest in cooperation.

FREDERIC SPEIDEL

*Social Affairs Attaché at the
German Embassy, Beijing*

TWO SIDES OF THE COIN: SOCIAL LABOR STANDARDS AND INNOVATION



What role do **social policy** issues play in Sino-German relations?

: My mission is to contribute to a profound dialogue on social policy issues. A particular interest is the big issue of how to institutionalize social stability and social peace. We hope to foster mutual understanding of the functioning of very different social security systems, different systems of labor relations, different labor market policies, different production models, etc.

Where does China stand with regard to policy and legal frameworks for ensuring **social standards**?

: China has progressed a lot in the last ten years. There is a very sound legal basis protecting employees, at least on paper. The reality, however, often tells a different story. But this will change as soon as it becomes clear to Chinese enterprises that high social labor standards and innovative production and products are two sides of the same coin.

With a new middle class in China and the accompanying value shifts, employees are becoming more demanding. What is the effect on **labor affairs**?

: There is a high level of awareness of labor rights in China. Employees are more self-confident in claiming their rights and fighting for good conditions and salaries. However, the All China Federation of Trade Unions (ACFTU), the official trade union, is not always the first organization to address their needs. We observe many conflicts where ACFTU is not mandated by employees to negotiate on their behalf. In many cases, labor unions have to rebuild trust and relationships, making clear that they are on the side of employees and committed to their interests. The first step is that employees obtain the right to choose their own trade union representatives. Some recent pilot projects in Guangdong Province have precisely that goal. Another positive sign is that Guangdong People's Congress passed new regulations on collective negotiations and collective contracts.

What is the **impact** on German companies?

: German multinationals are very much interested in achieving stable labor relations. For example, Volkswagen is currently establishing a model case for labor relations at its new plant in Foshan and is cooperating with Sun Yat-sen University in Guangzhou to create a chair of social development and industrial relations.

ROLF H. KOEHLER

*Vice-Chairman of the Board of Directors of
the German Chamber of Commerce Shanghai
(in charge of business & society issues)*

FROM INDIVIDUAL OPPORTUNITIES TOWARDS TRUE LONG-TERM PRESENCE

China is a key market for many German companies – but is it more?

: Many companies are changing viewpoints and moving from individual opportunities to a true long-term presence. Even though China has become a very important market, we Germans often still feel we're outsiders in this country. Although ties in the economic and political sphere are getting closer, many companies still find it astonishingly difficult to become deeply rooted here.

What can companies do to grow roots?

: People are key. The past direction has been to move German business into China. We've focused on capital investment and transferring know-how to China in exchange for market share through sales and profits. When it comes to people, we have seen the pendulum swing from expatriate leadership to the localization of management in China. But have we really grown "glo-cal" leaders – Chinese managers who can represent the German idea of the "honorable merchant"? Top management in Germany still has a long way to go towards truly embracing China.

What kind of leadership do Chinese employees expect?

: True leadership embraces values and knows that business does not exist for its own sake. In my view, it is a means of creating value and distributing it with a strong sense of fairness and responsibility. Once a business has exited the survival stage and is able to look beyond "daily necessities," it needs to find a broader balance between value creation and value distribution. Ethical business leadership looks at people, values, morale and genuine progress.

How do you think German companies can leverage corporate citizenship in China?

: My personal view is that German industry can leverage the acceptance it enjoys and grow additional roots in Chinese society, especially through education. One example would be to support expansion here of Germany's dual, work-study education system. We can get involved in more shared, visible social projects that go beyond quality CSR and charity work.



We can help China become a better place for everyone – through activities like the workshop for people with disabilities now being set up in Taicang. We can create in-house examples that show how companies can reward loyalty, with company pension systems, for example. We could also show some pride and actively do more to promote our language as another deep and lasting element of better understanding. We could seek ways to generate more interest in and knowledge about our country. Chinese people have very positive views of Germany. This is a big asset that we can work with.



Construction side of new Shanghai Swimming Center, Pudong

PAN TAO

*Social Entrepreneur,
Founder of Ecoland Club*

SEEKING A BALANCED LIFESTYLE



In 2010, you founded Ecoland Club, a community farm where people from Shanghai can grow their own vegetables and spend their weekends. Where did the idea come from?

: I studied environmental resource management at Cottbus University in Germany. That's where I learned about the German Schrebergarten system, the small plots of land outside of city centers allocated to people as gardens. This may seem somewhat old-fashioned in Germany, but when I moved back to Shanghai with its dense population, polluted air and food scandals, I longed for such a natural place with breathable air for my family. So I found a plot of land in the suburbs and rented part of it out to other like-minded families. In the beginning, it was just a hobby, but gradually I realized how much demand there was, so I decided to establish Ecoland Club as a community farm project based on a social business model.

What is your business model?

: Ecoland Club is an organic community, where families and friends harvest he-

althy food and enjoy meaningful outdoor activities together. During the week, the plots are cared for by professional farmers. On the weekends, families come out to spend time on their fields and to join our community activities and educational programs. I believe that this kind of model can be a solution for society, helping it to transform and move towards more balanced urban-rural development. City dwellers have access to a more natural lifestyle, while farmers get new job opportunities.

What kind of people join Ecoland Club?

: Our members are more or less upper middle class. They are entrepreneurs, professionals, government officials. Currently, we have 240 members, and are steadily growing, adding 40 to 50 new families each year. We also have quite a few Chinese-German families as members. People find us mainly by word of mouth; so far we haven't done any marketing. Ultimately, I dream of having a club with a million members. That could really have an impact on society.

Do you receive visitors from Germany?

: Yes. Many Germans find it interesting to see that the Schrebergarten model has become an "export product." One delegation last year was from the Green Party. They had been travelling in China for ten days and were rather negative about the developments here. I was happy that I could offer a positive example and hope for change.



Pan Tao's 'Schrebergarten', Shanghai, Feng Xian

ZHOU XIAN

*Social Entrepreneur,
Founder of BUY42*

RETHINKING CHARITY



You founded Buy42 in 2011 after coming back from your studies in the UK. What is the **business concept behind the site?**

: Buy42.com is an online second-hand shop that I run as a social enterprise. We employ 30 full-time staff. Many of them have disabilities and we have another 200 people working part time. In terms of the name, “42” means “for two,” i.e. for you and someone else. After six years of doing business, Buy42 now has over 20,000 members. It has organized over 80 charitable events and collected over RMB 2 million for charity. Our sales revenues are almost doubling every year.

Where did the **idea come from?**

: The phenomenon of charity and second-hand shops that I encountered in the UK inspired me to start something similar in China. However, charity in China is associated with the government and buying second hand is something only the poor do. So to start a private social business in this field, I had to rebrand the idea, turning it into something really cool, simple, trendy. That’s why we started with a strict

policy of only accepting items that are fairly new and haven’t been used much. The treatment of clothes and their presentation, for example, are very important to us. We work with professional photographers and brand designers to ensure everything is visually attractive.

Who are your **typical members?**

: Our main members are white-collar workers in big cities, between 25 and 35 years old, who have plenty of unused things and who are interested in meaningful social issues. They would like to participate in charitable activities that are simple and fit “naturally” into their lives. So we work through an online platform and social media, offering various activities. Our most popular events are public flea markets, which are usually enjoyable community circles. We also work together with designers who design new clothes and items from old clothes and then launch their designs on our website. This helps us in our mission to turn second-hand garments into fashion.

Where do you **source your products?**

: Our sourcing concept is based on donations of used items and clothes by both individuals and businesses. The very low sourcing costs allow us to sell our products inexpensively to online shoppers while still leaving room for a margin, which we then reinvest in internal training courses. We also use it for marketing purposes relating to social inclusion and working with people with disabilities.

You also **cooperate with companies. How?**

: We have a “pop-up, charity-in-the-office shop” that we offer to companies, such as SAP, which has set up a regular Friday Market, a community event organized by employee volunteers. We feel a social enterprise is a good “service product” for companies, since it’s a simple way of promoting employee engagement and volunteering.

HAN ZHENG

Professor of Innovation and Entrepreneurship at the Sino-German School for Postgraduate Studies (CDHK), Tongji University

INCUBATING IDEAS FOR A GOOD CAUSE



As a university professor, where do you see the biggest challenge for China's education system?

: The biggest challenge is that the government is the only one who can reform the education system, but current reforms are not sufficient to ensure China's future economic development. Time is working against us.

What kinds of reforms are needed?

: A main reform would be to introduce more applied sciences. Not only are the students that are "produced" at universities not a good fit for the job market, professors also don't have the right qualifications and they lack practical experience. The major measure of qualification is still exams and not market experience. Overall, the Chinese education system is educating the masses, not the elites. That is fair enough on the one hand, but, on the other, China needs intelligent elites to solve its enormous problems.

Is the government addressing these needs?

: It is, but the system is very rigid. There

is a top-down innovation strategy. What is missing is bottom-up innovation. In view of the ineffective incentives, most teachers and professors are rather "lethargic." We need more entrepreneurial spirit in the education system.

You teach entrepreneurship. In view of the growing awareness of social issues, are social enterprises a topic that your students are interested in?

: No, at least not yet. Most Chinese students are hungry for economic success and keen to become the next Ma Yun, founder of Alibaba and one of China's richest men. Unfortunately, China still lacks role models and "heroes" in the area of social entrepreneurship.

Nevertheless, the number of social entrepreneurs in China is rising. What challenges do they face?

: The major problem is still the policy and regulatory system. In Germany, if you are a social enterprise with a charitable purpose, you can register as a "nonprofit company," (gGmbH) which lowers your taxes

and gives you a proper legal basis for what you do. In China, there is no such thing yet. You can either register as an NGO or social organization, or you are a company on a commercial basis, which is what most social businesses are.

Which new areas do you think it would be interesting for social entrepreneurs to explore?

: I would say education, public health and care for the elderly.

You have spent many years in Germany. What ideas found there could be useful in the areas of social business and corporate responsibility in China?

: Two things. First, the traditional German Mittelstand with its unique company cultures and many social values. Second, the younger dynamic German start-up scene with its interesting business models. There is definitely still a big pool of expertise related to social competence in business and society.

OLIVER YE YANG

Deputy Secretary-General for Strategy and Policy, Shanghai Soong Ching Ling Foundation

TRANSPARENCY AND TRUST



In China, a growing number of people want to contribute to social causes, but there seems to be relatively little trust in philanthropic organizations. What are the main challenges?

: Trust and transparency are indeed huge issues. Various scandals have resulted in a general mistrust towards foundations and charitable organizations. In fact, accountability and compliance structures still leave a lot to be desired.

What is the situation at your foundation?

: I would maintain that Shanghai Soong Ching Ling Foundation is quite a pioneer in this field. In 2009, we were the first major public foundation in Shanghai to become independent from the government and establish transparent governance structures, which is the only way to earn trust. Now we are helping other foundations and NGOs improve their standards, too. As one of our projects, we have established an internet platform through which social organizations can promote their projects and find donors. Use of the platform is free, but tied to the condition

that NGOs regularly publish financial reports and project documentation.

What cooperative models do you suggest for foreign companies that want to engage in business-to-society collaboration?

: In general, I recommend collaborative forms of engagement. Most companies, especially small and medium-sized enterprises (SMEs), only have limited resources to invest beyond their core business. Joining forces enables them to increase impact. Finding capable Chinese partners to do that is key, but companies need to understand that the social structure in China is different from that in Western countries. In China, social affairs are by default government affairs. If other players such as companies or non-governmental organizations want to get involved, they still need a “political mandate.”

How can companies ensure government support of their social activities?

: In China, the dominant thinking is still that business is business. A mature notion of companies as “corporate citizens”

has yet to develop. But in view of the huge societal challenges, the government increasingly acknowledges that third parties can be partners who help solve problems. If you find the interests shared by the company, the government and society, then there are many opportunities.



New Children's Theatre of Shanghai, Statue of Soong Ching Ling

JOSEF WIELAND

*Director of the Leadership Excellence Institute Zeppelin (LEIZ),
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University in Friedrichshafen*

THERE IS A GAP TO FILL

Corporate social responsibility (CSR) is very much en vogue in international business, but it seems like many German companies are not really warming up to the concept, particular the country's "Mittelstand." Why is that?

: Indeed, Germany's small and medium-sized enterprises (SMEs) often cannot relate to the term CSR. But actually, German companies are very active in areas that can be seen as corporate responsibility and social engagement. However, they usually do not label it as such.

Why not?

: The motivation for their engagement often derives from a sense of regional belonging, driven by the basic human desire to relate to the local community that they operate in. There is a lot of activity, but as is traditional in Germany, it is not communicated. This has a lot to do with the history of many Mittelstand companies. Another reason is that Germany has developed a culture of corporate social responsibility ever since the early 19th century, one that is strongly intertwined with the history of the welfare state. As a

result, there is a comprehensive body of legal regulations on social issues, inclusion, justice and fairness. Given this tradition, some people feel that there is no need for further voluntary CSR.

The term CSR originally comes from the US, and is an Anglo-Saxon concept. I am convinced that CSR is voluntary but not arbitrary. It is often wrongly interpreted as "only" doing social good. Instead, it is a strategic management tool, and the challenge to every company, but especially to SMEs, is to integrate CSR into their core business and to communicate it.

In China, that is a must for any company, but for foreign companies in particular.

: Yes. One element of a German company's China strategy has to be how to anchor better in Chinese society in the long run. I think more and more companies are becoming very aware of and alert to changes in Chinese society and are trying to draw conclusions from this.



In your experience, what are the strategies of German companies in China and what are their activities in practice?

: Mostly, I see a considerable gap between good practice at home in Germany and abroad in China. In Germany the links to local communities are very strong, while in China companies are often still quite reluctant to connect with society. One reason might be an intercultural challenge that is given too much weight: the belief that China is just very different. Ignorance and a lack of strategy are further reasons. But this is changing, and I believe that some strategies SMEs apply in Germany will work well in China, too. In view of China's having become a more "saturated" society in which many people have reached a certain level of material satisfaction, meaningful values are becoming more important. The Chinese state is still struggling in this regard, so the expectations towards companies are very high.

PHILIP LAZARE

Lawyer, Shanghai,
Partner Luther Law Firm

THERE ARE MANY OPPORTUNITIES

LEGAL FRAMEWORK FOR
WORKING WITH NGOS IN CHINA

What is the notion of “NGOs” – non governmental organizations – in China from the legal point of view?

: On the surface, there is not much difference to other jurisdictions: China’s constitution guarantees freedom of association, so anyone can set up an organization. However, the reality is more complicated. For starters, the Chinese generally use the term “social organizations” emphasizing the public welfare aspect. These social organizations are subdivided into four separate types: private non-business units, member associations (confusingly also referred to as “social organizations”), public foundations and private foundations. Each has very specific requirements that are not easy to fulfill.

Are these social organizations really “non-governmental”?

: Technically yes, but the government stays in control. The government has the right to approve or deny registration based on rather vague criteria. Or close it down if it finds a violation of these criteria. This ensures that most organizations will avoid sensitive territory. Applicants who want to register a social organization also need to find a

government or public institution willing to act as a “supervisory unit”. This is the most difficult hurdle.

If the requirements are so difficult to comply with, why would anyone apply?

: In fact, the number of socially active Chinese citizens who work outside the system is huge. They work in informal groups or even establish limited liability companies which look like profit making entities, but are actually used for non-profit activities. Some groups decide to partner with established organizations which is an option if you fail to work your way through the bureaucracy.

Looking ahead, do you see any progress in improving the legal framework for NGOs in China?

: Since 2013, the Party has started emphasizing the separation between society and government and the “vitality of social organizations”. The Party intends to relax the registration requirements for social organizations e.g. by doing away with the requirement to seek approval from a supervisory unit. This would be a major step towards a more open registration system.



Is the non-profit sector open to overseas involvement?

: The law says that overseas companies and citizens are allowed to set up or participate in social organizations, except that the individual members in associations must be Chinese. However, in practice we do not see it happening. The authorities fear that foreign NGOs might be promoting ideas that are in conflict with China’s governance model. Moreover, overseas foundations seeking to open an office in China must still partner with a supervisory institution.

How do you see the potential for foreign companies to become involved in China’s civil society sector?

: I think foreign multinationals in China have a chance to encourage civil engagement for public welfare causes in many areas. While they may not be eager to work with the large “semi-official” NGOs, companies can support or initiate small scale initiatives in various fields, as long as they are not in sensitive areas. Many projects may not even require formal registration.

FURTHER INDUSTRY VIEWS

“For the market, CSR has changed from a stand-alone subject to a strategy for business continuity, from risk management to business innovation. **The market leaders believe integrating CSR in their products and business processes will create more business opportunities.**”

As this is not yet mainstream, CSR is often used for branding and differentiation. An idea for the future: Since Germany is a leader in the automotive industry, why not set up a German CSR initiative for the automotive industry, engaging all German OEMs and their supply chains, thereby developing and agreeing on a CSR standard in China?”

SHERIN LIN

CSR Expert, Director of Training Greater China, TÜEV Rheinland

“**As German companies in China we are** – from a legal perspective, but also beyond that – **Chinese companies, too.** We would like to enjoy equal opportunities and rights; in return, we are aware that this also means equal duties. As representatives of German industry operating in China, we are therefore ready to live up to the social responsibilities that go hand in hand with being a Chinese company.”

JENS HILDEBRANDT

*Head of the Greater China Department, International Markets,
German Chamber of Commerce Abroad (DIHK)*

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Picture acknowledgements

title: Jan Siefke

08: Arne Weyhardt

09, 14, 20, 21, 24/25, 30, 31, 36, 42, 43, 48, 49, 52, 57, 58(2), 61(2), 66/67: Jan Siefke
11, 13, 17, 19, 23, 27, 29, 33, 35, 39, 41, 45, 47, 54, 55, 56, 58(1), 59, 60, 61(1), 62, 63: private

Sources

10/11: www.global-skyline.de; Ministry of Environmental Protection, China; National Bureau of Statistics; McKinsey Global Institute analysis; China in Zahlen · brand eins Verlag, Hamburg, 2012

ABOUT THE PARTNERS

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BERTELSMANN STIFTUNG was founded in 1977 and is one of the largest private foundations in Germany. It designs and implements its own projects dedicated to serving the common good in areas such as education, economy, health and culture. With its projects in the field of corporate citizenship and corporate culture, the foundation aims at contributing to the political debate by providing studies, analysis and recommendations on necessary reforms. Bertelsmann Stiftung's program 'Germany and Asia' is helping to build a solid foundation for relations between Germany and its Asian partners.

“German companies often engage in CSR activities and contribute socially without recognizing it. The German approach to social responsibility is subtler and more low-key, and is barely exploited solely for promotional means. It is therefore more comprehensive and less visible. At the same time, it is definitely people-considerate and driven by placing the employee in the center of the relevant activities. **German companies have isolated initiatives that are definitely noteworthy, but not integrated.**”

MICHAEL MAEDER

Head of Young Leader's Forum at German Chamber of Commerce Shanghai and Partner, Ward Howell International

“A general notion about German companies is that they are low-key and subtle about communicating their CSR initiatives. Many fail to publicize their actions adequately using the proper communications channels. **There truly is a need for a multi-stakeholder platform that allows companies to join forces** and leverage impact as well as visibility.”

TIANTIAN QI

Senior Business Manager, Government Affairs Department and Manager of CSR-Working Group, European Union Chamber of Commerce in China

“For the German community, there are many leverage points allowing companies to join forces for more impact, although I would emphasize environmental protection. **Using German know-how in the area of sustainable development, we can work together to help China tackle its environmental challenge,** which requires urgent action in light of the rapid industrialization and urbanization process that has taken place recent years.

DR. RICHARD ZHANG

President of the Regional Center China, Heraeus

Project Implementation in China:

CONSTELLATIONS International is a consulting agency based in Shanghai that designs and facilitates collaborative projects between Europe and China with a focus on promoting dialogue, learning and cooperation. Special fields of expertise include: sustainability and urban issues, cross sector collaborations and social engagement, diversity and creativity. CONSTELLATIONS is co-owned by Katja Hellkoetter and Magali Menant. On behalf of the board of the German Chamber of Commerce Shanghai Katja Hellkoetter also acts as the workshop leader for the chamber workshop on Business & Society.

Supporting Partner:

The GERMAN CHAMBER OF COMMERCE IN CHINA – SHANGHAI is part of the official member organization in China which represents German companies doing business in China. The German Chamber helps its members succeed by providing up-to-date market information and practical advice. It offers a platform for the Sino-German business community and represents its member's interests towards stakeholders including governmental and public stakeholders. The Chamber In Shanghai was founded in 1999 and currently has around 1,700 members in East China. Corporate social responsibility as well as sustainability issues are topics that the Chamber and its Board are actively addressing and promoting.





CHINESE-GERMAN RELATIONS

1600 1650 1700 1750 1800 1850 1900 1950

PEOPLE

1619

Adam Schall von Bell, a missionary and astronomer, is sent to China. He becomes one of the trusted counsellors of Emperor Shunzi during the Qing dynasty.



1867

Capital: Critique of Political Economy by Karl Marx is published. A major work of communism and socialism, **Capital** will have a great impact on both German and Chinese history.



1899

The missionary and theologian Richard Wilhelm goes to China. He is best remembered for his translations of philosophical works, e.g. by Laotse, from Chinese into German, which in turn have been translated into other major languages. His work will influence the image of China in the Western world.

In the 1920s and 1930s, members of the German army helped to reorganize the Kuomintang-army. Mao Zedong's guerilla troops were counselled by Germans as well.



1923

The first Chinese restaurant is opened in Berlin, Germany. Today, there are about 100,000 Chinese restaurants in the country.



1937

Siemens employee John Rabe helps to establish the "Nanking Safety zone", which shelters approximately 200,000 Chinese people from slaughter during the Nanking Massacre.



ECONOMY

1731

The first German trading ship to travel to China is the **Apollon**. The ship brings back tea and porcelain from the Middle Kingdom.

1900

Establishment of the German Asia-Pacific Business Association (OAV)



1903

The Germans establish the brewery Germania in their Chinese colony in Qingdao. The beer they brewed, known today as Tsingtao, is still the most popular beer in China.



1872

Siemens delivers first order to China: pointer telegraphs, which mark the beginning of China's telecom industry.



POLITICS

1941

China joins hands with the Allies in World War II.

1949

Mao Zedong proclaims the establishment of the People's Republic of China. The German Democratic Republic recognizes the communist government in Beijing, while the Federal Republic of Germany and most other Western nations recognize the Republic of China as the sole legitimate government of China.



1865

Germany establishes the first embassy in Beijing.

1898

The port Qingdao becomes a German colony (until 1914).

Beginning of the 20th century: Chinese reformers start to create a Civil Code based on the German Civil Code. Even today, the German law remains the basis for many Chinese laws.

1950

1973

For the first time, the German Academic Exchange Service grants scholarships to German students to study in China.



2000

1979



China gives the pandas Baobao and Tiantian to Germany as a present. They become major attractions at the Berlin Zoo.

2005

You Xie, a native Chinese and owner of a takeaway restaurant, wins the local election and joins the City Council in Bamberg, Bavaria. His motto for the campaign: "Ente gut, alles gut." ("All is well as long as the duck is good.") Duck dishes are a popular choice in Chinese takeaway restaurants in Germany.



2010

A survey, conducted at Coventry University's Center for International Business of Sport (CIBS) shows: Even before Germany's national soccer team won the World Cup in Brazil, it was the team Chinese soccer fans favored the most.



2015

There are about

950

projects for cooperation between German and Chinese universities.

TODAY

About

36,000

Chinese students learn the German language.

23,000

Chinese students are studying in Germany. Chinese students represent the biggest group of exchange students in Germany.

About

100,000

Chinese people live in Germany

In China, there are approximately

16,000

German people.

CHINA'S WORKING-AGE POPULATION (+ FORECAST)



1984



Foundation of the first Volkswagen joint-venture in Shanghai. Volkswagen becomes the biggest car manufacturer in China.

2001

China joins the World Trade Organization (WTO)

2009

China overtakes Germany as the world's leading exporter

2014

The Chinese Chamber of Commerce establishes an office in Berlin, its first office in Europe.

1994

The Delegation of German Industry & Commerce establishes its first office in mainland China, in Shanghai.

2005

Investment treaty between China and Germany

2007

China surpasses Germany in economic rankings, with a GDP of \$3.4 trillion. Germany's GDP reaches \$3.3 trillion the same year.

2013

The trade volume between China and Germany reaches €140 billion (German exports: €67 billion, Chinese exports: €73.4 billion). China is Germany's third most important trading partner behind France and the Netherlands.

More than **5,000**

German companies are active in China

900

Chinese companies operate in Germany.

German companies have invested about

€39 bn

in China as of today.

Chinese companies have invested

€2.3 bn

in Germany.

1972

The Federal Republic of Germany and the People's Republic of China establish diplomatic relations.

1989

Fall of the Berlin Wall. In Beijing the Tiananmen Square protests are violently stopped by the military.

1967

Quotations from Chairman Mao Tse-tung is published in German. The "Little Red Book" will become a symbol of the protests of 1968.



2004

Germany and China enter into a "strategic partnership".

2000

Foundation of the German-Chinese Dialogue Forum on the Rule of Law

1999

Foundation of the German-Chinese Dialogue Forum on Human Rights

Today, there are over

60

Mechanisms for Bilateral Dialogue

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