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“GERMAN businesses need to think in a more CHINESE way”

Daniel Berger,
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China – will the factory of the world become the world’s new think tank?

China has a better handling of Covid-19 than the rest of the world, is growing faster than anyone else, and has a clear plan for its future. Should we be worried about that?

An interview with Asia expert Daniel Berger and the business magazine brand eins

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brandeins: Mr. Berger, you've been living and working in Shanghai for 22 years - in the meantime, you've even mostly returned to normal in China, while we stumble from one lockdown to the next over here. Europe is sliding into recession; China is reporting growth. Is the country finally catching up with the West during the pandemic?

Daniel Berger: That happened already. Even before the pandemic, forecasts have assumed that China will be the world's largest economy by 2033, ahead of the U.S. This forecast should now be actualized five years sooner. The pandemic is unintentionally becoming a springboard for the country.

How can that be? In the spring of 2020, there were concerns about a kind of "Chernobyl moment," that the virus outbreak would bring about the downfall of the political system, similar to the situation in the Soviet Union at that time. And now the country is the great stabilizer of the world economy.

The government's measures have worked very well. This is also due to the fact that people in China, and in Asia as a whole, are more willing to submit to the community. They do what is necessary to overcome the crisis without complaint - and at the same time consistently pursuing their goal. At the moment, that means tech autonomy. Instead of nurturing their old industries, China has pursued a clever subsidy policy during the crisis. Technology promotion is now at the top of the economic and political agenda. They no longer want to be dependent on chips from America. This is also a central component of the new five-year plan, which will be adopted in March.

Meaning the factory of the world also becomes the world's think tank?

It won't happen quite as quickly, and the country is still nowhere near as far along as many would expect. There are already major companies in the fields of e-mobility, e-commerce, telecommunications and artificial intelligence, but the basic research in these areas comes from Japan, Korea and the U.S. - China has just applied and scaled it all much faster: Electric mobility was already being promoted by the state, while we in Germany were still hanging on to the combustion engine lobby.

The Chinese may not be the worlds leader of innovation, but they certainly are the leaders in application. In the long term, this will also help basic research, but it will not make the country a technology leader in the next five years. I've seen a lot in China - I don't see that happening in the near future.

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But we are also seeing tremendous speed in other areas. The huge infrastructure projects in Africa or the Belt and Road Initiative, with which China is also scraping the edges of the EU, are increasing the country's influence. And while Western alliances are crumbling, China has just created the world's largest free trade zone in Asia.

The country continues to surprise us with its speed and the force of individual developments. At present, China's main concern is raw materials, new sales markets and stable alliances independent of the West. The country has achieved enormous things in the past 30 years, but there is still a lot to do. The debt, the income gap between urban and rural areas, the aging of the population, the environmental pollution that costs more than 1.5 Mio lives every year ...

Do you think China is pre-occupied with itself for now?

We should not rely on this. The more influential the country becomes, the more it wants to have a voice in the international rules of the game. We can't avoid the debates, and we can't turn back the clock either; the current discussion about decoupling is misleading. We are an export nation, we need globalization.

But Germany is first threatened by a wave of insolvencies in the wake of the Corona crisis. Are Chinese investors already waiting in the wings?

In the past, investment from China fell sharply, and now in the crisis this will certainly be accelerated again. Many SMEs that are actually well positioned may be grateful for the new liquidity.

Are you serious?

Of course. There are good and bad examples of how German companies have developed following a takeover by a Chinese investor. Kion is doing well, Kuka less so. There is no difference when German companies buy Chinese ones. However, I advise offensive, proactive communication. As little as possible should be negotiated in secret.

Open communication is not exactly considered a strength of the Chinese. In addition, the hope that China will liberalize politically when the economy opens up is not being fulfilled at the moment.

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The agreement just negotiated with the EU shows that the Chinese government is indeed seeking dialogue. China is obviously willing to create fairer rules for competition and the market environment. Opening and internationalization are also part of the new 5-year plan. The Chinese do not want global isolation. China wants to integrate and be recognized as a partner.

If you look at the situation in Hong Kong, you don't get the impression that China is interested in its image abroad.

The interest in national power politics is certainly strong, but the leadership can't afford to take affront Western trading partners. If the country no longer has access to innovative technologies, it will hit high-tech and car companies and mean a loss of growth. The trade war with the U.S. will not end overnight, even under the new President Joe Biden. This was certainly a wake-up call for the Chinese leadership - and the motivation to seek dialogue with the Europeans.

How good are Germany's chances in the face of this hypermodern, efficient, high-tech dictatorship drilled for growth?

China is still an important sales market, the third largest for Germany. Five years ago, the DAX companies made ten percent of their sales in China; now it's already 15 percent. For other companies, even more. But it's no longer a foregone conclusion. The China hustle we celebrated ten years ago is over.

China has always been very clever at pushing German companies ahead: Access to the Chinese market was only available through joint ventures, with jobs and technology transfer. Will the pressure increase the stronger China becomes?

This is no longer a question of legislation. On the contrary, as recently as October, guidelines were explicitly adopted for German-Chinese cooperation, which has never happened before. This shows how important Germany is for China. In the future we can expect more cooperation in intelligent manufacturing, in robotics, in new energy and 3D printing. But the environment is getting tougher. Wages and operating costs are rising, the market is no longer growing as disproportionately, and above all: competition from Chinese suppliers is becoming fiercer.

We are dealing with very agile, hungry companies. In China, the 9-9-6 culture applies, working from 9 to 9, 6 days a week. That certainly shouldn't serve as a model for us, but the spirit that drives many Chinese does.

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For German companies, the following applies: If you want to continue to be successful, you have to think in a more Chinese way, become faster and more agile, otherwise your market share will continue to dwindle. It is no longer the case that every German product is the most wanted.

Made in Germany no longer works?

In a study for the Robotics + Automation trade association of the German Mechanical Engineering Association (VDMA), we have just established that Germany is still seen as a competent technology leader. This is not enough for long-term success in China and business models need to be adapted. We are still focusing on perfection, whereas Chinese suppliers are much more focused on "good enough" being enough. We have to adapt more to customer needs. Take it or leave it - we have to get off our high horse. We have to become system-relevant, i.e., invest along the customer's value chain, enter into co-operations with suppliers, universities, and associations so that we are not easily replaceable. And we need to invest more quickly in new technologies. To do this, we also need industrial policy support. We are dealing with a strong state that implements programs and does not spend years discussing them.

Speed is not an easy issue at the EU level.

The EU wastes time, that's true. However, the emissions directives in 2019, for example, have meant that the market for e-cars in Europe is now larger than in China. I expect a similar effect from the German government's national hydrogen strategy: nine billion euros to make Germany the leader in hydrogen technology by 2030 - that's how you consistently build new industries. China is doing no different.

Until now, the relationship was clear: The West had innovations and products, China had the market. How will East and West be positioned in five years' time?

We will continue to converge, blurring the boundaries. When it comes to the latest technology, we are still far ahead. Otherwise, the technology gap will narrow. Huawei, Tiktok, now Xiaomi are slowly emerging. We will see more and more Chinese labels in the future. First with electrical appliances and apps, then with e-cars, where China wants to become stronger. In the future, there will be Chinese machines, which will do the job just like German ones, but may be cheaper. China is moving closer and closer to Europe and Germany. We should be prepared for this.

Interview: Sonja Banze, brand eins

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Daniel Berger, 48, started his consulting career after completing his business administration studies in 1999 at EAC International Consulting in Shanghai. Since 2012, he has been a partner - and an expert in the automotive, mechanical engineering, industrial goods, infrastructure and digitalization sectors. EAC (Euro Asia Consulting) was one of the first management consultancies in Germany to specialize in China. Founded in Munich in 1992 by Dietmar Kusch, 61, the consultancy now has offices in Shanghai, Mumbai and Moscow and advises German SMEs as well as corporate groups.

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As part of the renowned industry report "Best Management Consultants 2021" by the German magazine *brand eins,* EAC International Consulting has once again been honored - this year in the category „Mergers & Acquisitions“.

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