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German Drivetrain

Known for their engineering excellence, German businesses are employing that precision in a range of other sectors, from chemicals to logistics.

By Sheila Wong

In the last few decades Germany and China have developed a trade relationship that has been more cooperative than competitive. This has been despite the struggles that Germany has undergone as it further matures as an economy that once dominated as a major manufacturing centre and continues to rely on exports, two areas where China has gained in strength. Trade volume between the two sides grew over 20 per cent in 2007 from the previous year, amounting to USD94.1bn, according to Chinese statistics.

"Germany is by far China's biggest trading partner in Europe, and since 2002, China is Germany's second most important export market after the United States," said Albrecht von der Heyden, Consul General of Germany in Shanghai. Two official visits to China in two years by German Chancellor Angela Merkel as well as a visit last year by Federal President Horst Koehler highlight China's importance for Germany.

Albrecht von der Heyden, Consul General of Germany in Shanghai

The recent visits have not only boosted dialogue and business deals between the two sides, but also reinforced existing cooperation and agreements. "Many German companies at all levels from MNCs to SMEs cooperate with those in China, but we also cooperate on a state level in many fields such as IPR," said von der Heyden. "Over the last 25 years about 500 experts from China have been trained in Germany in IPR issues."

Export-Driven Economy

Following several years of economic reforms, the German economy is springing back. In 2007, GDP growth reached 2.5 per cent, the second consecutive year it rose above the two-per cent level. Although that rate may pale in comparison to China's much younger yet more robust 11 per cent, it is far better than the negative growth of prior years.

Like China, Germany is an export-driven economy. The country's exports grew by 8.3 per cent last year and accounted for more than half of the GDP growth, or 1.4 percent. Domestic stimuli (mostly driven by company investment in equipment) grew by 8.4 per cent, contributing to another percentage of GDP.

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Consul General von der Heyden notes that accumulated direct investments from Germany into China in 2006 (the most recent figures available) reached USD14.1bn, with roughly USD11.4bn originating from the area under his jurisdiction, namely Shanghai and the provinces of Jiangsu, Zhejiang and Anhui.

He adds that there are about 800 German enterprises in the region, a figure he believes is closer to 1,000 judging from the membership level at the German Chamber of Commerce. "There are likely more than this because there are enterprises that are not members of the chamber, but all told, there are about 2,600 German enterprises in all of China," said von der Heyden.

Formidable Presence

A number of German companies trace their initial presence in China to over 100 years ago. Deutsche Bank, BASF, ThyssenKrupp and Siemens are among those that have returned in recent decades to invest in and develop their business here. They are just a few of Germany's biggest and best known companies that are operating in China, including industry leaders in auto manufacturing, industrials, chemicals, pharmaceuticals, and manufacturing engineering.

While many of Germany's biggest companies also stand among the world's leaders, an estimated 3.4 million SMEs comprise the backbone of the country's economy. A growing legion of those smaller companies are making their way to China, either in support of existing customers or in search of new ones.

One of Germany's best known companies among Chinese consumers and businesses alike is Siemens. Its principal business areas include Industry, Energy and Healthcare. As one of China's biggest foreign employers, Siemens Ltd. China has a total of 50,000 employees in this market, with more than 7,000 joining its forces in 2007. It currently operates 90 companies and 60 regional offices across the country. In 2007, sales and new orders for Siemens China increased by 21 per cent to RMB53.3bn and RMB60.7bn, respectively.

In a recent press conference, Dr. Richard Hausmann president and CEO of Siemens China said, "We will further expand our portfolio in environmentally friendly technologies to reach 50 per cent of our sales in this field by 2010." The company plans to invest an additional RMB10bn into its China operations in the mid-term and RMB17.3bn in the long-term. Half of the initial RMB10bn will go toward innovative, energy-saving and environmentally friendly technologies.

Another German giant that enjoys high recognition among the Chinese public is Volkswagen. Its restructuring plan, implemented in 2005 to end the downward spiral of its once commanding lead in the world's second-largest market, is largely considered successful.

After centralising its sourcing operations, cutting its prices and introducing new models – six last year and more are expected this year including the Cross Polo – Volkswagen surpassed its target and annual production capacity of 900,000 in 2007. Sales reached 910,491, an increase of 30.2 per cent from 2005. The growth has prompted China's biggest foreign automaker to consider reversing its earlier decision not to build any more production plants in China.

Zhang Suixin, general manager of Volkswagen China Investment Co. Ltd., and Chief Representative of Volkswagen (Beijing), highlighted the importance in the company's R&D efforts in clean vehicle technologies. "[We] have just begun [our] powertrain strategy to reduce consumption and emissions by more than 20 per cent by 2010, across a whole fleet of models produced at FAW-Volkswagen and Shanghai Volkswagen," he said, in an earlier interview with *Shanghai Business Review*.

Energy efficiency and environmentally friendly goals are a reoccurring theme among German companies in China, and it is an area that has grown in priority particularly among companies with a long-term view of the market.

Driving Force Industry

The auto industry accounts for 40 per cent of all Germany's exports with leading manufacturers such as Volkswagen, Audi, BMW, DaimlerChrysler, and Porsche. Global sales for DaimlerChrysler reached EUR147bn in 2007, the third largest carmaker in the world. VW is Europe's largest

Survey Points to Success

According to the results of a recent German Delegation of Industry and Commerce's (GIC) survey, German businesses are prospering in this market. In the largest survey of German enterprises in China, about 80 per cent of respondents reached their earning targets or exceeded them while 93 per cent said they planned to expand their local operations, says Bernd Reitmeier, GIC's deputy managing director. A total of 273 German operations across the country, including representative offices, WOFEs and JVs, took part in the GIC survey.

China is an increasingly attractive destination for German SMEs. Of those companies present in China for more than 10 years, 20 per cent are SMEs, while those here for four years or less amount to 53 per cent. Another trend that emerged from the survey includes the increase of trade and service companies. The percentage of such companies present less than two years amounted to 45 per cent while those in China between six to ten years represented 19 per cent of respondents.

About every second production company intends to increase its in-house activities in the area of production (44 per cent), sourcing (48 per cent) and R&D (56 per cent). Almost a third will do so in the areas of marketing (29 per cent) and after-sales (30 per cent). Ninety-five per cent of respondents will maintain their level of business activities in China between 2008 to 2010.

car maker with global sales of EUR105bn in 2006, the latest available figures.

In China, BMW saw 2007 sales grow by 42 per cent, a total of 51,588 units, including 49,388 BMWs and 2,200 Mini brands. The company plans to increase its production in China by 45 per cent to 44,000 units in the coming months. Current production in its Shenyang plant with Brilliance China Automotive Holdings is 30,000 BMW 3- and 5-Series annually. The company recently opened a new auto parts distribution centre in Shanghai, its second in the country. It is expected to store an inventory of 15,000 spare parts and deliver a total of 290,000 components annually.

Mercedes-Benz, part of DaimlerChrysler, also saw its fortunes rise last year as sales in China including Hong Kong and Macau reached 30,600 units, an increase of nearly 50 per cent from 2006. The flagship S-Class reached sales of 11,500 units, making it the best selling luxury sedan in this market. Demand for SUVs also showed strength, with sales reaching 3,000 units, an increase of 90 per cent from the previous year.

Mercedes-Benz (China) first entered the market in 1986 via Hong Kong before moving its headquarters to Beijing. It now has over 90 franchised sales and service centres in this market. It locally manufactures the E-Class sedan with the Beijing Auto Industry Company. The company is expected to open a centre in Beijing later this year that will offer services for specific product lines for existing customers and potential buyers. There will be a display area, coffee area, children's entertainment area and a service workshop.

Business among German auto suppliers is also booming. Bosch, one of the world's largest automotive suppliers in terms of sales, currently has 14 WOFEs, seven JVs and six trading companies in China all operating under the group's various business sectors that, in addition to auto parts, includes consumer goods such as power

Backbone of Economy

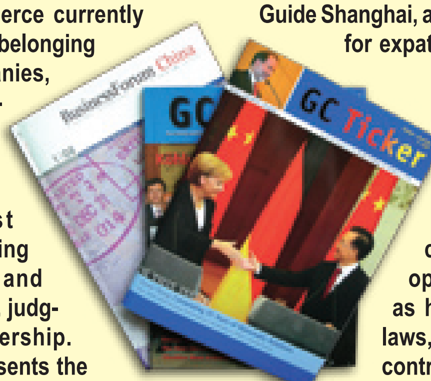
Mercedes, Lufthansa and Siemens are flagship names for German business worldwide, but the nation's SMEs play an equally, perhaps even more, significant role in its economy. Germany is home to an estimated 3.4 million SMEs, categorised as companies with fewer than 500 employees and annual sales below EUR50m. All told, they employ close to 70 per cent of the country's workforce.

Those SMEs looking for opportunities in China can turn to a number of support networks, comprised of, for example, incubators like the German Centre and organisations such as ICSME, the International Centre for SMEs which opened its doors last year. ICSME specialises in assisting manufacturers with facilities and service support such as market-entry consultancy, business administration, sourcing, among others.

The GIC offers a number of services that include investment advice, business set-up, trade fair service, recruitment, and assistance in working with authorities and recruitment, among others. Given its membership growth – 1,000 last year compared to 800 in 2006 – the office has added 25 to 30 new people last year with a total of 135 in Shanghai and five in Ningbo, says Bernd Reitmeier, GIC's deputy managing director. "We're growing not only staff; we've added new departments working on environmental issues and building parts, and we have a lot of investment projects."

One key concern among newly arriving companies is cost, and this has driven up interest in neighbouring Jiangsu Province. "Apparently there are more German companies in Jiangsu than there are in Shanghai," he added. According to the GIC, China is currently home to 4,500 companies and a majority of those, 2,700, are in the region of Shanghai and Zhejiang, Jiangsu and Anhui provinces. Another notable trend shows companies switching from direct sales to indirect sales, which, in his view, is a natural progression to the next step in the market.

Working alongside the GIC, the German Chamber of Commerce currently has 1,003 members belonging to over 850 companies, says Kristen Robinsen, the chamber's publications manager. She agrees that the biggest growth area is taking place in Jiangsu and Zhejiang provinces, judging just by membership. The chamber represents the interests of German industry around the world; in China, it has offices in Shanghai, Beijing and Guangzhou. Although the Beijing office is authorised to work with the central government in collaboration with German institutions, the Shanghai office is the largest by membership in China.



"We have three kinds of events: the chamber meetings, workshops and social events," said Robinsen. The workshops are largely divided by industry and typically host 20 to 40 people while the meetings attract anywhere from 100 to 200 attendees and address more general issues.

The chamber also distributes a number of publications such as *GC Ticker*, a member-based magazine, *BusinessForum China*, a bi-monthly business magazine, and Info-Guide Shanghai, a German-language book for expats living and working in Shanghai. In addition to providing a forum for communication, the GCC also organises meetings in neighbouring provinces to convey the latest developments on topics such as human relations, taxes, laws, marketing and quality control, among others.





German Expertise in China's Construction Sector

As one of Germany's largest contractors working in building construction and civil engineering, Ed. Züblin AG has become a name, both in Germany and abroad, associated with large, innovative products. More than a century of history and growth have allowed the company to take advantage of its size in setting up its own permanent factories that produce concrete pipes and other precast elements. It also offers high-tech products in the form of custom-made machinery, environmental technologies and fully automated material flow systems.

In 2005, Zublin increased its European footprint by becoming part of STRABAG SE, Austria's largest construction firm, which now ranks as Europe's fifth largest.

Regarding Züblin's core business, construction, it has been benefiting from the recent bounce in not only the German economy, but also in emerging markets. Since it started its international operations in 1953, it has operated in over 50 countries; in 1999, a subsidiary, Züblin International GmbH, was created to manage projects abroad. The latest annual report details successes in Eastern Europe, Chile, the Middle East and China.

Wealth of China Experience

Few foreign companies have worked in China since the mid-1970s, while Züblin's first project in the PRC was for Wuhan Steel in 1974, followed in 1979 by work for Baoshan Steel. The 1980s saw the company working on a number of major infrastructure projects, such as Guangzhou Harbour and 2,000m of sewage piping under Shanghai.

Since the mid-1990s Züblin has developed a decade-long relationship with its joint venture partner, and in 2004 Shanghai Changjiang-Züblin Construction and Engineering Co. was certified as a Category II Contractor, permitted to construct industrial, municipal, harbour, and tunnelling projects. In 2003, a project management firm was established to widen the range of services on offer.

As domestic construction companies improve at a dizzying rate, foreign companies continually need to innovate to win projects. "The Chinese only need support with the latest technologies, which means that foreign companies have to focus on this market," says Harald Kuhn, General Manager of Züblin China.

Projects in Infrastructure and Industry

Züblin has a long list of significant infrastructure projects under its belt. In 1991, it completed the Xinsha Terminal of the Huangpu Port – the construction of which was the first in China to use the underwater caisson method for the foundation of the quay. It was also behind the work done on the Ting Kau Bridge, a 1,200m-long structure that connects Kowloon to the New Territories. More recently, in 2002, it made an impression with the completion of the Xiaolangdi Dam. Located in Henan Province, this dam has nearly nine kilometres of tunnels, some up to 20m wide.

Züblin is currently working on a cutting-edge project in northern China, where it is supervising the laying down of railway tracks capable of taking high-speed trains. It is German technology, and it makes sense for a German company to be involved.

An ever increasing focus has been on building

manufacturing plants for multinational companies. "We acquire some projects because we have a long experience in China; and we get some because the company is very well known in Germany," says Kuhn. "So our clients know that they are going to get standards of a high quality." Its clients include a range of well- known German companies – Haidenhain, Siemens Medical Equipment, and INA Schaeffler, to name just a few. Repeat business is important as satisfied customers return for additions to their plant: for example, Züblin has recently finished the third phase of Zwilling's Shanghai plant.

Züblin has offices in Shanghai and Beijing, but its reach across China is not limited to two cities. In the last couple of years it has designed and built plants in Qingdao, Wuhan and Jilin. The company's current projects are located as far as Shenyang on the northeastern coast, running all the way down to Guangdong Province.

Full Range of Services

Being able to offer both general contracting and project management puts Züblin in the position to help its clients through every stage of the construction process. Not every client needs help at every stage, but for those that need it, the whole package is available. "When working as a general contractor, we take on the whole responsibility," says Kuhn. "Upon the completion of a project, we include full after-sales support, including a warranty, which is based as much on the good relationship we have with our clients as it is on our contractual agreements."

The process starts with the design process which takes into account the clients requirements, leading to a detailed three-dimensional design. "We can guarantee that it looks like the design, not just from the outside, right down to the technical details, such as tiles, switches and pumps," says Kuhn.

Once the design is settled, Züblin will liaise with the government on behalf of the client. It also makes the difficult choice of contractor and subsequently manages them to make sure that the project is completed on schedule, within the original budget and, most importantly, in the safest manner possible. Three decades of experience in China has given Züblin's relationships with key officials and the best contractors the chance to grow to maturity. It is these established relationships with all the right people in China that helps strengthen the paramount relationship between Züblin and its clients. ❑

Contact person: Mr. Harald Kuhn, General Manager. Address: D37 Crest Villa, No. 97, SongLin Road, Shanghai 200120, P.R. China Tel: +86-21-58318816, Fax: +86-21-58316366 E-Mail: harald.kuhn@zublin.com.cn Homepage: www.zublin.com.cn tools and industrial technology. Auto supply represents of over 55 per cent of the company's sales in China, which reached EUR1.3bn in 2006, an increase of 30 per cent from the previous year.

As with many companies, China is one of Bosch's biggest growth markets. Of the company's workforce of 13,800, 3,300 new employs joined in 2006 alone. It re-established its presence in China in the mid-1980s and, by 2002, the group had invested a total of EUR500m, a figure that has grown to over EUR750m in 2006.

One of Germany's largest privately owned industrial companies is the Schaeffler Group, a leading bearing and automotive supplier. Last year, it opened one of its largest production facilities in Taicang in Jiangsu province. The EUR180m, 110,000 sq. m plant will employ an estimated 1,500 staff and has the capacity to expand a further 90,000 sq. m.

Electrical & Mechanical Engineering

The auto industry is followed by electrical and mechanical engineering as Germany's strongest industries in terms of sales and number of people employed (EUR152bn, 799,000; EUR142bn, 868,000, respectively, in 2004). From developing high-speed rail lines to creating manufacturing equipment for specialised production, like for adhesives, hundreds of German companies have successfully made the leap to China. Many of them compete with highly sophisticated technology and top-notch quality goods.

> Chinese residents could likely be carrying banknotes printed by German-made printing machines.

A German name behind the Maglev train in Pudong is ThyssenKrupp, a technology giant that specialises in steel, capital goods and services. It considers China its most important market in Asia. Its revenues here reached RMB9.98bn in 2006, which represented about 10 per cent of the group's foreign sales. It employs roughly 6,000 in its offices and production facilities across China, and around 190,000 worldwide.

Although the name Heidelberg may not be as widely known among average Chinese residents as others already mentioned, they could be carrying around banknotes printed by its printing machines. In 2006, the China Banknote Printing and Minting Corp., the world's largest banknote printer, purchased 12 Speedmaster presses for its six printing plants and began printing banknotes last year.

Also in 2006, the company became the first German equipment manufacturer in the print industry to establish an assembly plant in China, located in Shanghai's Qingpu District. Although concerns over copyright infringement run high among companies specialising in cutting-edge technology, Heidelberg is banking on big returns. Given that the average Chinese consumer spends USD10 a year on print media while a Western European spends USD400 and a Japanese spends USD600, the company considers the potential for growth phenomenal in this market.

Another German player that deals with paper products and has invested heavily in China's future growth is Voith AG. The company invested EUR50m in the construction of a planned paper city in Kunshan, Jiangsu Province, due for completion in October this year. It will include three factories and the China headquarters of Voith's paper production sector. The site, measuring over 70,000 sq.km, is one of the group's 14 sites in China.

Voith's global sales rose by 9 per cent last year from the previous year, surpassing the EUR4bn-mark for the first time, said CEO Hermut Kormann in a recent press conference. Business in China accounted for around half of that growth. "We're expecting dramatic growth in China over the next 20 years," he said. Orders in China increased 30 per cent last year over 2006.

Like many other German companies, Weidmüller's products are used in a wide variety of applications. It is a maker of connectors, electronic products, terminal blocks, accessories and tools used in production, as well as specific customer assembly line requirements. The company offers over 35,000 of its products worldwide, and more than 7,000 are available in China with over 2,000 made in the company's Suzhou plant. In recent years, Weidmüller has invested over EUR26m in

Olympic Engagement

German companies are lining up along with the hundreds of other enterprises hoping to make their mark in the Beijing Olympic Games as sponsors or in the construction of sites and auxiliary facilities and services. Siemens' involvement in the newly unveiled Aquatic Centre includes installment of the electricity generation and water treatment systems. It will also supply systems to handle the baggage of the expected 28 to 60 million visitors to Terminal 3 of Beijing Capital International Airport.

Meanwhile, Adidas will supply sportswear for the Chinese Olympic Team, all staff, volunteers and technical officials of the Olympic Games as well as those for the Paralympic Games as the official sportswear partner. DHL is sponsoring China's national badminton team, while Volkswagen, as an official auto partner, plans to introduce cars powered by alternative fuel in time for the Games and has already unveiled a series of Olympic-themed Beetles.

China, including the upgrade of its Suzhou facilities and operates 11 branch offices across the country. It expects annual sales in this market to exceed RMB400m.

A leading fastener manufacturer, Würth, in August began the first phase of construction on its USD30m production facility in Shenyang. An initial 400 employees will begin work there later this year in October, with an eventual planned workforce of 3,000 once the second and third phases are completed by 2010 and beyond. The facility, which sits on a total of 30 hectares of land, marks the company's intention to move from simply a manufacturer and exporter to a supplier to the domestic market.

Another global leader in its industry, Demag Cranes has been present in China since 1994 when it established production facilities in Shanghai's Fengxian district. It makes high quality crane steel structures and assembles cranes with imported key components such as hoists, travel units and end carriages. In addition to its production facilities, Demag also has 18 sales engineer offices across the country, increasing its responsiveness to customers.

Marking their 15th year in China, Linde China Forklift Co. Ltd., a subsidiary of Linde Material Handling GmbH (LMH), has shifted its focus away from just seeing its China operation merely as a production base. "In the past, the position for Linde China was as a factory that produced trucks for the Chinese market only, but the whole situation changed two years ago," said Ching Pong Quek, president and CEO of LMH China and Asia Pacific.

The company has invested an estimated RMB1.8bn in the market and is currently undergoing tremendous growth as it prepares to speed up more localisation of products and parts, and increase its role in the group's global sourcing strategy. "We're expanding our production capacity. We're adding more people, and bringing in new equipment for manufacturing and testing machines for our labs," Quek added.

Linde Forklift and medical device maker Dräger Medical Equipment Shanghai may offer radically different products, but they are both industry leaders in sophisticated technology and premium quality production. Both are competing in a highly cost-sensitive market with expensive goods, and both continue to teach potential customers the long-term value of high-quality goods and excellent services to extend cost benefits.

Such efforts are paying off for Dräger as it responds to strong demand for its products with growth. "We're in the process of setting up a new facility in the Shanghai New Medical Zone in Kangqiao," said Wolfgang Syhr, general manager for Dräger in China. "It will serve as the Greater China headquarters as well as our R&D and manufacturing facilities." The project will cost an estimated EUR7m, which brings the company's total investments in China close to EUR10m.

Syhr notes that the government is strongly devoted to making quality healthcare universally available and affordable. "Up to 60 per cent of patients leave the hospital not because they're cured but because they run out of funds," he said. Part of Dräger's strategy to deal with this cost pressure on their high quality medical products is to extend its portfolio for more economic solutions such as developing products specifically for Chinese customers and making them here. "Our ability to supply the solutions locally will give us a cost advantage that allows us to rapidly achieve our goals in China."

Chemical Development

Among Germany's biggest industries, next to industrial engineering and auto manufacturing, is the chemical productions industry. In 2004, it generated over EUR150bn in annual sales, with about 70 per cent destined for export. A global industry leader is BASF, which traces its ties to China as early as 1885. It is one of the country's biggest foreign investors in the sector and employs 5,500 people in its 29 WOFEs and nine JVs. Its sales in 2006 surpassed EUR3.6bn in Greater China.

In January, the company inaugurated the region's first plasticiser applications lab in Shanghai. It also announced plans to expand annual production of its oxo-C4 plant in Nanjing by 55,000 metric tons by the second quarter of this year, a decision fueled by demand that is expected to grow four to five per cent annual through 2015. "We will be able to meet rapidly growing demand in Asia, particularly China, which accounts for about half of the demand for oxo-alcohols in the region," said Albert Heuser, president of BASF's petrochemicals division at the inauguration.

Another company that has seen its fortunes rise in China is specialty chemicals company, Evonik Degussa. Its sales revenues in China totaled EUR460m in fiscal year 2006, an increase of 60 per cent from the previous year. Its target for 2009 in the Greater China region is EUR1bn. The company operates 18 companies in China with production sites in more than ten cities. Evonik Degussa (China) is the parent company of the group's activities in China. Evonik Group completed its acquisition of Degussa in 2006.

One of the group's biggest global investments is a EUR250m methyl methacrylate plant, which broke ground in September 2007 and is expected to begin production in 2009 with an annual capacity of 100,000 metric tons.

Back in the day before skycrapers and bright neon signs dominated the view from Shanghai's Bund promenade, one faint corporate signage could be seen: the Bayer sign on the northern shore of the Huangpu River. The company's links with China date back to 1882 with the marketing of dyes. Since its re-establishment in this market during the late 1990s, it has expanded its business scope to include healthcare, crop science, material science, and technology services operating under 14 of the group's companies, eight of which are WOFEs.

Greater China is Bayer's largest single market in Asia with sales of around

Community for German Businesses

The occupancy of the German Centre for Industry and Trade could well be a small-scale reflection of the growing number of German companies operating in China. The number of tenants in this 33,000-sq.m incubator, in Pudong's Zhangjiang Hi-Tech Industrial Park, has increased from 50 companies two years ago to 130 today – that's about 97 per cent full.

"The first year we concentrated on the tenants; the second year we concentrated on the infrastructure, such as building up the commercial area," said Christian Sommer, CEO and chairman of the German Centre, run as a subsidiary of BayernLB, the Munich-based commercial bank. "In 2008, we're looking forward to setting up a line of communications with the tenants." This will include regular meetings with executives, a regular newsletter and a friendly sports competition among tenants beginning with table tennis.

The centre's commercial area now includes a fitness gym, Syzygy restaurant, bank, convenience store, express delivery company, travel agent, and bookstore, among other facilities. The conference and meeting facilities are also used by non-tenants for corporate functions and banquets.

The experience of IMS Messsysteme Shanghai may be typical of a German Centre tenant. IMS specialises in the manufacture and design of measurement and control instruments for various industries. "We were one of the first tenants at the centre when it opened two years ago. We had already set up as a representative office and had been working out of a small office on Nanjing Road," said Knut Sieling, the company's general manager.

IMS's move from Puxi to Pudong was a natural one, which allowed Sieling and his staff room to grow the business. The company last year not only moved to larger offices in the complex, but also upgraded from a representative office to a WOFE. "Sommer and his staff know a lot about typical problems tenants face, and they can provide us with advice that's always neutral, like recommending reliable lawyers and accountants."

"We moved to this new office last year, which is 80 metres bigger than our first office mainly to accommodate our increasing spare parts stock," he added. The staff has gone from five to 15 in the last two years and they are continuing to hire engineers.

Other benefits of the centre include its location near the subway station and being surrounded by a good mix of international neighbours with a concentration of German companies – of the 130 total tenants, 80 are German. "The common language is a huge benefit," said Sieling. "Sometimes it's easier to speak about your problems and other things in your native language." The German Centre has become a place where one not only conducts business, but also makes contacts, which is one of the goals Sommer continues to strive toward.

Raising the Bar

This is a year of celebration for Linde China Forklift Co. Ltd. as it prepares to mark its 15th anniversary. "When this project was launched in Xiamen, it was inaugurated by Premier Li Peng and Chancellor Helmut Kohl and was one of the largest JVs at that time," said Ching Pong Quek, President and CEO of Linde Material Handling (LMH) China and Linde Asia Pacific. "We're proud to say we're one of the largest and most modern forklift manufacturers in Asia Pacific, offering the highest quality premium forklifts."

Given the development of the industry and increasingly strong demand for high calibre forklifts in China, Linde is stepping up its operations by increasing its production capacity, while expanding its role in the group's global sourcing strategy. "We're creating a new supply chain set-up for the organisation by helping our foreign factories within the group source raw materials and components," Quek said, adding, "We're putting a lot of resources into growing this region."

Ching Pong Quek

To date, Linde has invested about RMB1.8bn in the Chinese market, with much of that going toward initial construction and equipping of the 220,000-sq.m production plant, as well as subsequent improvements over the years, such as the new R&D operations launched last year. In the past, all the R&D work was conducted in Europe, but the company has now established a team of 70 engineers in China – and that number is growing. "We're investing in our people talent," said Quek. "We've added a lot of Ph.D. and masters students, as well as equipment and hardware support for them to conduct R&D."

The company is adding to its 1,600 workforce in China, and that comprises about eight per cent of the group's global total. About half of those employed in China work in the company's Xiamen headquarters; the other half are located at the various regions and branches across the country.

Gearing for the Future

Linde's new investments will also go toward expanding the company's existing network of 35 branches of sales and service offices to tier-two and tier-three cities. In addition to direct sales to a wide range of customers, Linde also generates sales through 12 dealerships across the country. "We're using a hybrid model, a mix of dealers as well as direct selling; however, the majority of sales still come from direct selling – I'd say 90 per cent," Quek noted.

He adds that, as yet, output at Xiamen is primarily for the domestic market, but that is changing. "We're trying to expand our export business because we can use our cost-effective advantages to support the rest of the emerging world, such as Russia, the Middle East, South America and Australia," said Quek. "The export business has now grown to about 25 per cent of our production, and I believe this will continue to grow in the future."

In addition to expanding its reach in China and investing in R&D, Linde is also putting considerable effort into training its recruits with a view to strengthen its future. It has transferred its German training programme to Xiamen, where it established a training academy for its interns and even business partners. "We're cooperating with the Xiamen Labour Bureau to provide customised training to technical school students and specialised training for our customers," said Quek.

Global Group Sourcing

One of the key developments for Linde in China is its increasing significance in the global sourcing for the group. Said Quek: "The whole situation changed two years ago: we redefined the position of Linde China in the group. We don't just sell in China, but we also want to buy from China. We're now a sourcing hub for the group's global supply chain." In other words, Asia has been integrated into the group's global operations whereby China is the hub for its Asian business.

The Chinese market is very important to Linde, as it is to many manufacturing companies eyeing the scale of potential buyers. "It's the fastest growing market in the world in our industry – last year it grew by 25 per cent," said Quek. "The good thing is that we're also growing very fast and our annual sales grew by 30 per cent last year."

Forklift Olympics

Competition in China is intense and ever-growing. "All the top 20 competitors in the world are in China, and there are new ones every year. This creates very intense competition even though the market is growing at a strong double-digit rate per year," said Quek. Rising overhead and commodity costs are putting ever-increasing pressure on product pricing. At the same time, customers need to be educated on the long-term value of buying premium performance products such as Linde's forklifts.

These factors have led Linde China to embark on creative marketing strategies. Last year, it organised the first-ever Linde Cup Competition, described as the 'Olympics for the Logistics Industry'. This served to foster a closer relationship amongst Linde's customers and educate truck operators to improve their efficiency and performance. "We began the competition in April on a city level and continued to a regional level before the big national finals in August," said Quek. "The customers really responded well to this event. More than 1,000 people participated – there's been no other event in the world like this one. In fact, it produced another Shanghai Great World Record – 'The Biggest Forklift Truck Competition'."

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EUR1.5bn in 2006. As an indication of the importance of China to Bayer's global development, the company is in the process of building a large-scale production site for polymer materials at the Shanghai Chemical Industry Park at a cost of about USD1.8bn due for completion in 2012. It is its biggest project outside Germany.

As with Bayer, Lanxess (branded as 'LANXESS') is another German player in the chemical industry that considers China its priority in the region. The company has been acquiring and partnering with local businesses to grow in recent years including one JV in 2005 that involved moving one of the largest hydrazine hydtrate production plants from the United States to Weifang, 120km from Qingdao. The project required the shipment of 1,100 metric tons of equipment that has an annual production capacity of 12,000 metric tons and is considered among the largest in the world.

In April 2006, the company launched its high-tech plastics plant in Wuxi, which is where one of its earliest projects, Lanxess (Wuxi) Chemical, a WOFE established in 1998 that produces treatments for leather and textiles, among other materials. Another JV is in Tongling, Anhui Province, that makes iron oxide pigments, which sits by the company's more recent JV, a plant built with an investment of USD20m with an annual capacity of 20,000 tonnes of yellow raw iron oxide pigments.

Lufthansa's first class cabin service

Pharmaceutical and chemical company Merck made its first mark in China in 1900 with the distribution of high purity re-agents via Shanghai, Guangzhou and Tianjin. Its current operations in China continue to be in chemical production and development under Merck Chemicals (Shanghai) Co. Ltd. Its products are found in many items such as mosquito repellant, cosmetics and automotive paints – even the agent used to preserve the colours of Terracotta Warriors.

Taicang: German Town in China

Although Shanghai may get the most media attention when it comes to international coverage, a small town in Jiangsu Province with a population of 450,000 has quietly gained prominence among German companies wishing to set up operations in China. "The neighbouring provinces around Shanghai are one of our biggest growth areas," said Kristen Robinsen, publications manager of the German Chamber of Commerce (GCC).

According to the GCC, over 80 German companies now call Taicang home and another 15 are expected join them in the coming weeks. Operation costs are an obvious attraction for most of them. Real estate prices are one-fourth of that in Shanghai and labour costs are about one-third of that typically found in first-tier cities due to lower taxes and the cost of living. Other benefits include quicker government response in terms of paperwork and assistance. For example, customs clearance for imported goods can occur in three days instead of a week or more in Shanghai.

Since the mid-1990s when three German companies first arrived on the scene, the infrastructure, such as roads and power supply, has gradually been improved, and a distinctive German flavour has permeated the town. Robinsen notes that a number of supermarkets, hotels and entertainment venues now cater to the growing German population, offering cuisine and promotions that remind them of home.

Service Sector in Growing Supply

Just as auto parts suppliers to car manufacturers have moved to China to fulfill a need and follow their customers, a host of service companies have moved here to serve their German counterparts. For one, inGenics, which designs and builds factories, is working on Wüerth's Shenyang project; software provider SAP has worked to improve the procedures and processes at inGenics; and Commerzbank AG specialises in providing financial services to German SMEs.

Germany's service sector is another crucial part of its economy. Over 63 per cent of its total 43.6 million work force is employed in services, either in the public or private sectors. Services industries were valued at EUR134bn in 2004, and SMEs continue to play an important role. About 40 per cent of all Germany's service companies are SMEs, each operating with fewer than 500 employees.

One of many companies specialising in providing SME services is consulting firm Droege. It offers services that many MNCs already possess, such as strategy development, partner searches, M&A, sourcing and operational improvement. Globally, Droege has more than 300 staff, 255 of them consultants, and earned EUR2.5bn in 2006. Over 50 per cent of its clients are engaged in industrial production, 31 percent in financial services, and 18 in services.

inGenics, meanwhile, counts both MNCs and SMEs as its clients. With 25 years experience, it specialises in helping plan production facilities and production lines, logistics planning, improving efficiency in production as well as office procedures. Among its clients in China are BMW, Bosch and Siemens.

SAP is the world's leading provider of business software. Over 41,200 customers in more than 120 countries run SAP applications. The group established its presence in China in 1997, renaming its local operations 'SAP Labs China' in 2003. As an integral part of the group's network, the China entity is among the group's fastest growing subsidiaries worldwide.

In 2004, SAP Labs China doubled its workforce and by late 2005, it began operating the group's fifth R&D centre (now eight globally) with over 450 employees. It is currently awaiting completion of a new campus in the Pudong Software Park and the launch of its Chengdu branch, growing its nationwide staff to 1,500 before the end of the year. SAP's global R&D network focuses on software development for SMEs, including market research, prototyping, development, rollout and support.

Engineering and construction is another German strength. Companies such as Züblin AG and M+W Zander are highly respected in the industry and have a long list of customers both from Germany and elsewhere. Züblin AG was one of the first foreign companies in China when it worked on a project for Wuhan Steel in 1974 and in 1979 on a project for Baoshan Steel. It has been involved in a number of infrastructure projects such as the Xinsha Terminal at the Huangpu Port, the Ting Kau Bridge in Hong Kong, and the Xiaolangdi Dam in Henan province.

Züblin is currently working on a high-speed rail project in northern China and continues to focus on building manufacturing facilities for a range of MNCs across the country. From its offices in Shanghai and Beijing, the company is able to manage its projects as well as provide follow-up services.

Meanwhile, architecture and engineering company, M+W Zander, specialises in high-tech manufacturing and industrial facilities. It arrived in China in 1994 and has worked on over 200 projects. In 2004, the company was granted its general contracting license as a WOFE, permitting it to take part in a wide variety of projects

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with domestic and foreign funding. In recent years, the company completed four contracts valued at USD4m for Bayer MaterialScience, with facilities located in Shanghai's Caojing Chemical Industrial Park. It employs over 400 in China, with the majority divided between engineers and construction management.

Financial Services

Founded in Germany in 1870, Deutsche Bank went on to establish operations in Shanghai only two years later. Today it has branches in Shanghai, Beijing and Guangzhou under the name DB China offering financial services in private and commercial banking, corporate and wholesale banking and other authorised financial services. It currently holds a 9.9 per cent share of Huaxia Bank, with which it launched a joint credit card operation in June last year.

As one of the earliest foreign banks to re-establish themselves in China, Commerzbank AG established its Shanghai branch in 1993 and began offering RMB banking services in 2000, one of the first to do so. In 1995, it established Commerzbank Asset Management to manage direct investments in private equity and venture capital, with a specific interest in SMEs seeking pre-IPO growth funding or long-term investments.

Allianz China Life arrived in Shanghai in 1999 as a joint venture between the Allianz group and CITIC Trust. It operates branches in Shanghai and Guangzhou, in addition to Zhejiang, Sichuan, Shenzhen and Jiangsu provinces; it has obtained authorisation to set up a branch office in Beijing. The company now employs 1,244 regular staff and close to 10,000 insurance agents.

Logistics and Transportation

In Germany, where trains run like clockwork, the business of logistics and transporting goods is taken very seriously, and operating on that culture are German companies such as DHL, Schenker, and Luthansa who have also become firmly established in China.

DHL, one of the first names in international express delivery and 100 per cent owned by Deutsche Post World Net, has thus far invested over USD615m in China. About USD175m have gone toward the establishment of its North Asia Hub in Shanghai scheduled for completion in 2010. It will be one of its six hubs in Asia Pacific. One of DHL's biggest investments was the USD316m it used to establish its express and logistics network and infrastructure, while also launching its domestic airfreight service in China early last year.

It currently operates out of its four gateway cities: Shanghai, Beijing, Guangzhou and Shenzhen, and covers over 300 cities nationwide with more than 11,400 employees and 1,900 vehicles. It operates more than 325 locations, including gateways, offices, service centres, terminals and warehouses.

One of the world leaders in its industry, Lufthansa, is expanding its services in China. Lufthansa recently announced plans to launch five weekly non-stop flights between Nanjing and Frankfurt starting from 1 April as well as three weekly flights between Shenyang and Munich via Seoul in June this year. The airline currently operates daily services to Frankfurt from Shanghai, Beijing and Guangzhou, in addition to flights to Munich from Beijing and Shanghai.

The carrier, which is a founding member of Star Alliance, also has bilateral alliances with Air China and Shanghai Airlines (both of which joined in December 2007), allowing Lufthansa to offer connecting service to major cities such as Hangzhou, Chengdu, Dalian, and Xiamen. In a nod to its Chinese passengers, Lufthansa has established its LSG Sky Chefs in various Chinese cities producing 136,000 meals daily.

Family-owned logistics provider, Dachser, is continuing its growth in China with its 10-year EUR1bn investment plan. Last

Exporter of Trade Fairs

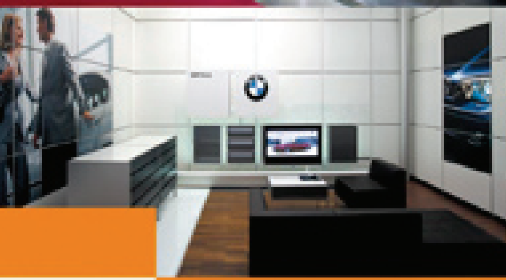
Germany is Europe's top destination for international trade fairs, an industry that generated EUR23bn in Germany in 2006. It is home to some of the world's biggest trade shows such as ITB Berlin that attracts over 10,000 travel and tourism exhibitors, the Frankfurt Book Fair with over 280,000 visitors, and CeBIT, the world's biggest IT trade fair with over 6,000 exhibitors.

Five of the world's top 10 trade fair organisers are German, and given the expansion of business ties in Asia, it's no wonder that these trade fair companies are making their way to China. CeBIT now features an annual event in Shanghai, while Messe Frankfurt has built strong ties in China and hosts a number of automotive and textile fairs here.

CeBIT in Hannover, Germany

Deutsche Messe operates Hannover Fairs China in Shanghai and is a shareholder of the Shanghai New International Expo Centre. Koelnmesse, which earned USD21.7m in 2006 in China, is scheduled to produce over a dozen shows here this year. Expotechnik, meanwhile, provides 'design-oriented, turn-key' services to exhibitors, assisting with anything from logistics to installation to lighting.

German trade fair companies are looking abroad to expand profit margins, with many pinpointing China as the most promising market. The Association of German Trade Fair Industry reported that its 19 members organised 222 overseas trade fairs, with 68 in China (36 in Shanghai) in 2007 alone.



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year saw the opening of the company's first logistics centre in Shanghai complete with its MIKADO warehouse management system, which was custom-developed by its IT team in Germany. And its 3,000 sq. m. warehouse space has doubled and is newly equipped with five to seven levels of rack storage.

In October, the company established its new class-A licensed WOFE in Shenzhen. "We're further expanding our contract logistics activities in North China and are considering a MIKADO run warehouse in South China or Hong Kong, depending on our customers' needs," says Vincent Christophe, general manager North China. He adds that the company will establish branch offices where strategically necessary.

Critical Developments

Environmental protection, responsible development as well as responsible energy use are crucial issues for all businesses, regardless of where they operate or where they are from. German businesses have an advantage over their Chinese counterparts due to public pressure to develop

Draeger facility rendering

in these areas, notes Consul General von der Heyden.

"We have a long tradition of developing environmentally responsible production and efficient energy use, and we have a wide range of products like water treatment systems and waste management technologies that we can share with the Chinese," he says. But it goes beyond the mere commerce of goods, German companies can also cooperate in advising their Chinese partners and helping put practices in place in all industries in which German companies are involved.

Nordex is one such company. The wind power enterprise plans to increase its investments in China by EUR50m and quadruple its annual production from 225 MW to 800MW by 2011. Its also aims to increase its market share in the country from three per cent to 15 per cent within the same time frame. Part of its strategy includes manufacturing all of its rotor blades domestically and transferring its technology to its Chinese partners to develop other core components in order to reduce costs.

Despite the longstanding business ties between China and Germany, there is still ample room for further opportunities, says the Consul General. For those who are arriving, von der Heyden says it is critical for them to be aware of all the challenges one faces in doing business in a highly competitive and new market such as China. IPR, government policies, and the repercussions of breakneck economic development should all be reviewed.

"Companies in Germany have an image of a dynamic and growing society," he says. "I try to explain the basic elements of this dynamic, the context of the overall economic development and the challenges one is confronted with in China." And after over a hundred years, German companies continue to be fascinated with the development of China, signaling the message that it is a relationship that is destined to grow. SBR

Germany and China: Forward in Tandem

Last year marked the 35th anniversary of the re-establishment of diplomatic ties between China and Germany – with visits by several top-level German officials, beginning with Chancellor Angela Merkel and Federal President Horst Köhler (the latter, in conjunction with the 100th anniversary of Tongji University in Shanghai). It was also the year that 'Germany and China – Moving Ahead Together' was launched in Nanjing. "This is not just a unilateral campaign, but more so a series of events intended to encourage cooperation between our countries," said Consul General Albrecht von der Heyden.

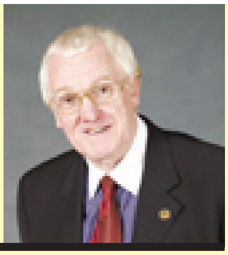
He notes that the events serve to present Germany as a modern and future-oriented country. "At the same time, they offer cooperation in areas of economy, culture, science and technology, in addition to future planning in urban development," he said. Plans are underway to produce exhibits in Chongqing in May and in Guangzhou later this year, culminating in two years – after a number of additional stops in other provinces – with the final event in Shanghai in 2010 to coincide with the World Expo.

The main theme of 'Germany and China – Moving Ahead Together' is to

highlight crucial areas of development such as saving energy, environmental protection, waste management, waste water treatment, urban development, as well as social issues such as culture. "On one hand we're showing German reality and on the other the path toward future cooperation in fields such as the environment and hi-tech development," said von der Heyden.

Volkmar Ruebel:

Tracing German Footprints



When Volkmar Ruebel arrived in Shanghai on the eve of Chinese New Year thirteen years ago there were, he says, 181 Germans living in the city. As he took up his post as general manager of Hilton Shanghai, things were beginning to move very rapidly in the wake of China's opening up to entrepreneurship and foreign investment. Two months later the headcount of German residents in Shanghai had risen to 800; today, the figure is upwards of 30,000.

The focal point for German-speaking expatriates in Shanghai in those days was actually in the area around the Hilton on the corner of Yanan Lu and Changshu Lu. There were several reasons for this, according to Ruebel: the hotel was the first of Shanghai's five-star boarding houses (it opened in 1988); Ruebel's predecessor was Swiss and several German-speaking consul-generals stayed in the hotel; the first German Ball was launched 11 years ago; 200-some people attended that event, which now attracts 1,000 and has long since grown too big for the Hilton to host. But this area was also known as the 'German Corner' as far back as the 1930s; on the edge of the French Concession, the German influence can still be found – the next-door Equatorial hotel, for example, used to be the Kaiser Wilhelm Schule.

Today the Hilton Shanghai still plays a major role – German visitors account for 9 per cent of total business. Sitting in the newly renovated expansive and stylish 38th floor Executive Lounge overlooking the French Concession, Ruebel remembers the Shanghai of 1995 as "dark and flat". Yet he points out various milestones in Shanghai's emergence as a bustling ultra-modern city lined with high-rises. And there's German technology driving much of that development – for years, the only taxis were Volkswagen, for example, and AEG built the first underground train station. "Germany has an excellent name for technology, and making reliable products – and Chinese like German products," he said. But the story of German businesses in Shanghai reaches beyond just that, he noted, "from technology, pharmaceuticals, chemicals to banking and insurance – the whole spectrum."

Germany was particularly fast to move into China in the mid-1990s because, unlike the UK, which had the handover of Hong Kong to contend with, or the United States, whose "fantastic relationship with China," he said, would always stumble on some diplomatic incident, Germany "was not so critical" of the Chinese government. Furthermore, with Germany's costly reunification at that time leading to lower consumer purchasing power, German exporters were more desperate to find expanding markets elsewhere.

Ironically the political love-in may have been slightly tarnished recently. The country's current leader, Chancellor Angela Merkel, angered the authorities late last year by meeting with the Dalai Lama, said Ruebel, and "for a while everything was stalled – not much happened for a few months." But things may be looking up, he added, noting just over the past two months signs of a renewal of German-Chinese business activity.

Nick Parsons

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