

Fabian Hänle, PhD

THE SECRETS OF CHINA'S SUCCESS

Untold Stories
of New World
Market Leaders —
and How the Western
Economy Can Respond

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Translated by Brandon Axley

GABAL

A note on gender-inclusive language: It is up to the respective authors to decide in which form all genders are addressed.

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Your vision will become clear only when you
can look into your own heart. Who looks outside,
dreams; who looks inside, awakes.

—CARL G. JUNG

Feeling is the secret to awaken.

—ROLAND G. HEBER

PART I

Who Are China's New World Market Leaders, and What Do They Want?

If you want to understand the effects of Chinese globalization, you need to know where they come from. This part of the book begins by describing who China's Mittelstand is, as well as how these SMEs think and what their plans are. It turns out that we in the West are already far more connected to our Chinese counterparts than we thought. So sit back and get to know them. You will be amazed.

Chapter 1

UNCOVERING THE SECRET TO CHINA'S SUCCESS: An Initial Picture

*He rises from the table full of energy and
shouts: "This is our future!"*

41° 48' 0" North, 123° 27' 0" East

Shenyang, North China

JANUARY 29, 2021

I can no longer feel my hands. "It's 26 degrees below Celsius," replies our sales director, Qian, with a grin when I comment on the weather as we walk through the BMW plants in Shenyang. We've been walking for hours, passing by cutting-edge production halls and snow-covered outdoor areas reminiscent of small towns. The Bavarian car manufacturer produces at three sites in Shenyang—Dadong, Tiexi and, more recently, Lydia—with the joint venture BMW-Brilliance. This is the world's highest-volume location.¹ I have been in China for eight years now, speak fluent Mandarin, and, together with my team, have achieved something that few people thought possible, given the more than 3,314 local competitors in our industry: as a German family firm, we've become one of the market leaders in China.

Today we have been invited back by the intralogistics department—the heart of all internal processes, from the material flow to the assembly lines where the finished cars later roll off the production line. BMW executives are accompanying us, together with the technical manager of our local partner—a medium-sized company from northern China. After confirming all the important technical parameters that we have discussed for a tailor-made concept, we continue on to our partner's headquarters. The company founder and senior partner, Mr. Wang, has invited us to a meeting. We drive through deserted landscapes on wide roads with snow walls towering feet high at the edges.

It is quiet in the dark gray older-model BMW. As I ponder the enormous growth and future of the Chinese market, the car comes to a halt in front of an inconspicuous U-shaped building. The tall, dark red brick halls remind me of old European industrial buildings from the 1970s. In front of us, however, the walls and roofs are stained black by the passage of time and the soot in the air—in Shenyang, a lot of heating is still provided by coal in winter. You wouldn't expect to find a major supplier for one of the world's premium car brands here.

The door to the meeting room bursts open just as we are warming our hands with a hot cup of earthy-smelling *pu-erb* black tea, and senior boss Wang briskly emerges onto the scene. He greets us with a broad smile and shakes each of our hands, and as he moves on to a practiced introduction of his company, I examine him closely.

He is in his early to mid-60s, has short gray hair, and wears small, round, rimless glasses. In addition, he's wearing a suit in a classic English cut made of anthracite gray fabric, combined with a vest and a brown tie with dark blue dots. He's clearly a gentleman's gentleman. He has a warm, alert look and obviously an equally awake mind. He says he starts his day at five o'clock on the dot, is a patriot who loves his country, and although he speaks only Chinese, is not afraid to travel the world and think outside the box.

As we discuss the project in detail together and the sun slowly disappears through the windows, Mr. Wang sums up: "Mr. Hänle, I am delighted that you have come all this way. When I consider what I have heard from my employees and contacts at BMW over the last few months about your work, for which you are not above going into detail, I have to say: it is rare that I meet a salaried managing director who is so committed to his company and runs it as if it were his own. This is a great project for both of us and an important step forward today. Let's continue to move in the same direction."

I suddenly realize that nothing has been decided yet and that it's going to be a long evening. Because in the context of our conversation, what he really means is: "We're not going to do business like this."

I glance briefly out of the corner of my eye at Qian, who understands my skeptical look and gives a barely perceptible nod, yet one that is enough for me to know that I am interpreting the warning signs correctly. Implicitly, the last part of Mr. Wang's sentence in the context of this specific situation means that he feels we are *not* heading in the same direction.

While in most Western countries we are used to saying what we mean directly and literally, in Asian cultures such as China or Japan, people tend to communicate indirectly and rely on the recipient to read between the lines and interpret the message correctly. In such a *high-context* culture, appropriate communication is usually based on intuitive assumptions founded on shared knowledge and

context. In other words, depending on the Western or Chinese perspective, we can understand completely different things from the same statement.

As I think about this, I wonder how often there are such misunderstandings in business and politics that lead to the wrong reactions. For one thing, no two interactions are the same; for another, there are also Chinese people who suddenly communicate in a surprisingly direct way, perhaps because of their experiences abroad. This means that the right amount of sensitivity is required for every situation in order to find out where you actually stand and to interpret the situation correctly. I keep asking myself what I must have failed to notice, especially at the beginning of my time in China, and it almost makes me dizzy.

However, today I can draw on my many years of experience and think back to a major Chinese entrepreneur from Singapore who told me that, for a foreigner, I could intuit a great deal and reach people very well with my open, engaging manner. Encouraged to trust my intuition and still determined to land the project, I start to think at full speed: Where might Mr. Wang be having doubts?

After all, it is clear to me that there is not much time left, as the final round of bids to our mutual end customer BMW-Brilliance is imminent and I have to reach an agreement with Mr. Wang; otherwise, he will choose another supplier. To find out exactly what the problem is, I discuss all aspects of the project again and ask him to summarize where he sees the greatest need for action. He doesn't even mention the technical solution, our consulting, or the promised guarantee, which is a good sign. However, he talks about even faster delivery times and, after a brief moment of hesitation, about the project cost and aggressive competitors. This makes me uneasy, as I have found that it is common in negotiations for Chinese people to mention the topics that really bother them not first, but last. However, we talk at length about the prices we are offering Mr. Wang's company. And of course, as the owner, after his project manager and then the purchasing manager had already negotiated with us weeks earlier, he once again demands a final price reduction. This "boss discount" has already been included in our calculation, so I feel that Mr. Wang should be able to accept our final prices, especially since he is very satisfied with our technical solution and consulting.

"Mr. Wang," I begin, very mindful of my words in Chinese, "thanks to your many years of experience and your contacts, you have the best understanding of the overall situation here in Shenyang. Can you please help me to better understand the competitors' pricing? Perhaps as you would tell a friend who is interested in supporting you." I look him in the eye across the light gray conference table, while inwardly hoping that he will also open up.

I watch as the small crease between his eyebrows just above the frame of his glasses gradually smooths out and his shoulders sink a few millimeters. He relaxes. Then he starts to talk about the Chinese competitors who want to displace us

with significantly cheaper solutions, and about himself as the only OEM (original equipment manufacturer) who is committed to integrating our higher-quality solutions into his end product. I continue to ask what his biggest concern is here, and now we reach the pivotal moment. Mr. Wang explains that he can accept our prices, but it would significantly increase his company's overall offer to the end customer. In the final bidding round, each of the OEM bidders has to submit the final package price online at the same time, and Mr. Wang fears that his company could lose business for years to come.

This is a legitimate concern, I think to myself, especially when you put yourself in his position and know that the winners of such bidding wars are often suppliers with the cheapest, but not necessarily the best-performing, offer. But in view of the very low price level, I reply that we, as an innovative manufacturer, cannot and do not want to compete in this way. However, I continue, we could help him in other ways. He looks at me intently and leans forward on the table. "Mr. Wang, you can choose us as your supplier and have a realistic chance of winning, even with a higher overall price," I tell him. "You can trust me, and I'll explain exactly why in a moment."

Mr. Wang is visibly taken aback by this bold statement, but it isn't coming out of nowhere. Through my direct customer contact, which I have always maintained as the China boss and during visits to end customers, OEMs, and distributors throughout the country, I sense that we have deeply understood the problems and needs of our end customers for this project. We have come up with the necessary technical solutions and services to give us a *unique selling point* over the competition and, most importantly, we have presented it in such a way that the end customer understands exactly what the benefits of our offer are and that they are worth spending a little more money.

This groundwork and our focus on the added value for the customer, so-called *value selling*, which we have carried out for years with our end customer in Shenyang, is also worth its weight in gold in this case, I think to myself with relief. Over the past few years, I have systematically implemented, trained, and improved this approach in my company through all levels of sales and regions. After all, this truly is one of the most important success factors for Western companies in China that manufacture technically sophisticated products that require explanation. Chinese buyers are increasingly asking critical questions, such as: "Just because you are a German company doesn't mean that you have the best price/performance ratio these days. Local suppliers are often faster and even offer us the same guarantee. So why should we choose your more expensive offer?" References to high-quality German, European, or American products alone often no longer suffice here; you have to demonstrate exactly what advantages you can offer the customer.

Technical value selling succeeds when you are specifically selected by the end customer as one of the preferred suppliers or, in the best case, as the only supplier. While this is generally important for Western innovation leaders, it plays a pivotal role in the price-sensitive Chinese market, where price differences are often even greater than in other countries. Sales activities can look completely different in China than in the rest of the world. One of the most common mistakes I made myself in China at the beginning of my time there was to assume a Western way of thinking and engage with the procedures, products, and strategies that we are used to working with “around the world.”

I have learned from bitter failures that China simply plays to a different tune and that correctly interpreting that tune requires a decisive combination of success that can make or break everything: a deep understanding of the mentality, culture, and market, as well as the ability to mediate between the Western world and China (more on this in Part II).

With this in mind, I suspect that I will be able to stand firm on the price in the project because—and this is my firm conviction that I have been able to pass on to my sales team—a company must achieve healthy margins and profits. Only then can the company take responsibility for its employees and its region even in times of crisis; remain as independent from banks as possible; create new jobs; invest in innovation, research, and sustainability; and thus ensure its future viability. As we reveal several such principles and details of our work with the end customer to Mr. Wang, something starts to resonate with him. Both of us can sense precisely that what initially seemed like a matter of pricing is, in truth and at the end of the day, primarily a matter of trust.

If Mr. Wang trusts my statement and it proves accurate, he will set himself apart from the competition and together we can win a major project for years to come. However, if I am wrong, he will in all likelihood lose the business and one of his most important customers. With the stakes so high, Mr. Wang would like to get to know us better, so he invites us to a typical Chinese business dinner to continue our conversation.

A business dinner like this is an art and a world of its own, something I didn't really understand much about at the beginning of my time in China. Of course, I had prepared myself, having made several business trips to Asia, read intercultural guides, and started to learn Mandarin back in Germany. The reality in China, however, was far more complex and, above all, more nuanced than I had imagined or read about. When my Chinese got to the point where I was able to conduct business meetings entirely in Mandarin, a completely new level of interaction opened up for me. I was utterly amazed by the many details, motives, and considerations in the Chinese *Guanxi* (关系, relationship networks), which continue to grow and become more intricate the higher the economic and political spheres

reach. I will talk about this in more detail later, because China's artfully woven social networks are one of the most important keys to its success.

When we arrive at the restaurant in the center of Shenyang that evening, we are shown to a private room that has been reserved in advance, which is customary for special occasions. What you often don't know in advance in China is who else will be attending the meal. I have often been surprised by other guests, including business partners and party secretaries. I still remember a dinner with the mayor of a city with a population of 5 million, where we started off in a small circle with his family, but later businesspeople and high-ranking members of the local Communist Party suddenly turned up. A unique aspect of China is that it is not the city mayors or province governors, but always the respective party secretaries, who have the final say and therefore the power.

Today, however, it seems that it is just us. Mr. Wang leads me as his guest to the seat of honor at the round table, indicated by a napkin artfully draped in the shape of a peacock fan in a wine glass. For a moment I am unsure: Can I accept this seat of honor? But then I remember that according to Chinese customs and a number of factors—age, relationship status, hierarchy, my goals—it is proper here to decline with many thanks and emphasized respect. This is followed by a lengthy negotiation in which etiquette dictates a back-and-forth. If one of the parties were to accept immediately and sit down, it would be very impolite—unless there are major hierarchical differences, for example. Ultimately, I manage to highlight Mr. Wang in his senior role and as the organizer of our evening get-together and finally, with a small smile on his face, he sits down contentedly in the seat of honor.

The food is delicious and 53 percent *Maotai* (茅台) is served (<https://moutaichina.co.uk>). Distilled from red millet (sorghum), wheat, and other grains according to age-old tradition, the spirit is considered China's high-end state liquor. As one of the most popular baijiu brands, Maotai is drunk at business, private, and political events as a "social bonding agent." Just as French champagne must come from Champagne, Maotai can come only from one region: in a river valley in the small town of Maotai in southern China's Guizhou region, Kweichow Moutai Co., Ltd. produces China's legendary liquor following a one-year process in accordance with the Chinese lunar calendar. The liquid is traditionally fermented in clay-lined holes in the ground, distilled several times with steam, and stored in large clay vessels for at least three to four years so that the final distillate can "breathe" until it is bottled. Maotai has cult status in China.

We talk about the former Chinese prime minister and chief diplomat, Zhou Enlai, who described Maotai as the "miracle elixir of foreign policy." I refrain from indulging myself, but try to keep the good mood going by recounting

Henry Kissinger's anecdote from the 1970s, when Maotai almost burned down the White House. In his role as national security advisor at the time, Kissinger engineered the historic reconciliation between the USA and China. In 1972, US president Richard Nixon had visited the People's Republic for the first time since its founding in 1949. At the state banquet in the Great Hall of the People in Beijing, which Premier Zhou was hosting in honor of the historic visit of the US delegation under President Nixon, Zhou had demonstrated the flammability of Maotai and presented Nixon with two bottles as a gift.²

"When Nixon returned home to Washington, he wanted to show his daughter Tricia how strong the Maotai was," I continue. "He poured the contents of a bottle into a bowl and held a lighted match over it. The bowl shattered with a bang and the burning alcohol flowed all over the table. The fire alarm went off in the White House and it was only by combining forces that the family managed to extinguish the fire and prevent a national tragedy. Years later, this story is still laughed about at US-Chinese government meetings."³ Mr. Wang and his management team are now also laughing heartily, the ice is broken, and we are getting closer. Now I express my interest in the history of the Wang family. So, accordingly, I ask Mr. Wang, who is seated right next to me, how the company was founded and what his vision for his company and China actually is. He suddenly becomes quiet and contemplative. Everyone at the table can sense how moved he is by this question.

After a long silence, he begins to speak in a low voice of a time long ago, when they had next to nothing—a time when, in the harsh winter of northern China, they were happy if they could store enough Chinese cabbage next to their vital supply of coal for heating and cooking. Many years were marked by profound insecurity, poverty, and doubt. "I know it's hard for you in the West, where you have everything, to understand," he practically whispers, "but where we come from, where we are now, there is a mentality, an energy, that we also deserve to be innovative and successful—to have a place in the sun. To show the world again what we can contribute as a family business in China."

Now he gets going and I see two sparkling eyes filled with passion and energy. I notice his strong physical tension and think he's about to jump out of his seat. Then he continues: "This is where we have our roots, in Shenyang and Changchun. And we'd rather build on that quietly than with fanfare. I was recently in the USA, where we opened an R&D center and a production facility for modern manufacturing automation." On his Huawei phone, he shows me a picture from the USA of him and Cao Dewang, owner of Fuyao Glass, one of the largest producers of float and automotive glass in the world.⁴ He rises from the table full of energy and shouts: "This is our vision, our future! From the ashes we rise, again

and again. Fuyao is our role model, and now we too are going global! *Ganbei* (干杯, Cheers) to China, Europe and the US! *Ganbei* to our friendship.”

Mittelstand and Family Firms “Made in China”: The Heart of the Economy

Welcome to the world of Chinese SMEs. This encounter, which left a deep impression on me at the time and ended well with the winning of the project, highlights several characteristics of the SME sector: for example, its visionary, aspirational mentality; its increasingly innovative and global orientation; its down-to-earth attitude; and its deliberate aversion to status symbols. Many company owners I have met over the years, for example, deliberately drive older cars, not wanting to be in the spotlight and simply wanting to “do their thing.” This is in stark contrast to the image of Chinese entrepreneurs and billionaires that we sometimes have in Europe and America—the investors who buy wineries (and the accompanying vineyards) in the South of France, remodel soccer clubs, or, like Geely boss Li Shufu, take a 10 percent stake in the German flagship company Daimler (Mercedes).⁵

These kinds of cases do indeed exist; however, such characters and extreme displays of wealth are more of a rarity in the broader picture. The majority of Chinese SMEs are not found in glass skyscrapers in Shanghai or in prestigious company headquarters as in Europe. They’re found in inconspicuous buildings in even more inconspicuous rural areas all over China, from which they supply world market leaders and corporations, often unnoticed by the media and the general public.

China has many contrasts, and its Mittelstand is a case in point. There is the very strong, established industrial sector, of which we can count Mr. Wang as a typical representative as a senior boss and first-generation company founder. At the same time, however, there are also many innovative startups⁶ in the industrial sector, particularly in newer technologies such as automated guided vehicles (AGVs), drone technology, and suppliers or manufacturers of new energy vehicles (NEVs), as e-cars are called in China.⁷ In addition, the digital economy, especially in highly innovative clusters such as Shenzhen and in the field of consumer digitalization, plays a leading role worldwide.⁸ In the digital sector, it is often younger founders who drive things forward, and many companies here are therefore different from companies like those of Mr. Wang or Mr. Cao from Fuyao Glass.

As diverse as Chinese SMEs are, they are all united by their key role in China’s economic success. With their contribution of more than 50 percent to China’s tax revenue,⁹ more than 60 percent of gross domestic product,¹⁰ more than 70 percent of technological innovations,¹¹ and 80 percent of jobs,¹² they play

a key role in economic growth and social development. Chinese experts describe them as the backbone of their economy.¹³

And what does the situation look like when we examine China's trade with the world? In 2023, China exported goods worth around USD 3.38 trillion, making it the world's leading exporter by a wide margin, ahead of the USA (USD 2.02 trillion) and Germany (USD 1.67 trillion).¹⁴ Around two-thirds of these exports are generated by SMEs.^{15, 16} Here, too, they are playing *the* pivotal role! So let's take a closer look at them to find out what makes them tick. First and foremost, let's have a look at who belongs to this group.

Who Actually Belongs to the Mittelstand?

Depending on the country and the definition, there are a variety of definitions for the Mittelstand. Therefore, I'll pick two particularly important ones to give you a feel for them: the narrower definition of "small and medium-sized enterprises" (SMEs) and the broader German definition of Mittelstand. The *Institut für Mittelstandsforschung Bonn* defines SMEs in Germany as companies with fewer than 500 employees and an annual turnover of up to EUR 50 million.¹⁷ The European Commission uses a threshold of 250 employees,¹⁸ and in the USA the Small Business Administration classifies SMEs as having 500 or fewer employees.¹⁹ In China, industrial SMEs are defined as companies with up to 2,000 employees, an annual turnover of CNY 300 million (approximately EUR 38 million), and company assets of no more than CNY 400 million (approximately EUR 50 million).²⁰ So, while the details differ somewhat, in Europe, America, and China, SMEs broadly encompass companies of a similar size.

The situation is different when we look at the German Mittelstand. In this context, for example, we read in renowned German newspapers and business magazines, such as the *Frankfurter Allgemeine Zeitung*²¹ or the *Handelsblatt*,²² about the medium-sized company Trumpf, which reported a new record turnover of EUR 5.3 billion at its annual press conference for the 2022/2023 financial year, generated by 18,352 employees at more than 70 locations worldwide.²³ You will learn more about Trumpf and its experiences in China later in one of the interviews I conducted for this book, where I had a particularly valuable discussion on China and global strategies with Dr. Stephan Mayer, member of the Trumpf Group Executive Board.

The term *Mittelstand* is therefore a special term from the German-speaking world and, according to the *Institut für Mittelstandsforschung Bonn*, is defined by a unity of ownership and management.²⁴ So, the decision as to whether a company is a Mittelstand company is based not only on its size, but also on qualitative characteristics.

When I explain the phenomenon of the German Mittelstand in lectures at universities abroad, I therefore focus less on the figures and more on the attitude and mindset that makes the Mittelstand unique and sets it apart in Germany, as well as in many other countries around the world. Important characteristics include an independence from corporate groups; family ownership and management; and the willingness to take responsibility for the company, the employees, and the region with one's own wallet.

Wolfgang Grupp, who built his company Trigema into one of Germany's leading textile manufacturers, even assumed liability with his private assets for decades. The now 82-year-old deliberately ran the prestigious company, which was founded in 1919 and now has 1,160 employees, under the legal form of a registered merchant (e.K.) in order to set an example for a better economic order. After all, Grupp argues, if entrepreneurs and managers (have to) assume the liability risk personally, this prevents mismanagement, tax tricks, irresponsibility, and short-term thinking—problems that, according to Grupp, cost our society billions. The state should reward entrepreneurs who assume high personal liability with significant tax benefits. This would help everyone and make the economy more secure and sustainable. During a meeting in June 2024, he and his daughter Bonita also shared with me their belief that rapid growth should not be the only goal and can be risky—an interesting thought, since rapid growth often requires large capital sums for investment.²⁵ Formerly independent companies can thus become dependent on investors, and long-term sustainable corporate management can be lost (for more thoughts on this, see also *Less Is More* by Jason Hickel).

For medium-sized family businesses, it is therefore important to think long-term and act innovatively with an “eye for what's important.” For European and North American industry in particular, including numerous specialists and global market leaders in technical sectors, innovation is usually the basis for success. Achieving global market leadership requires outstanding and, above all, continuous innovation. Western hidden champions are often an inspiring role model for China's SMEs.

The Hidden Champion Strategy

If you Google the term “hidden champions,” you get 2.45 million hits.²⁶ This is thanks to Hermann Simon, who developed the concept and outlined hidden champions' strategies. As he told me, it all began in Düsseldorf in 1987 when Harvard professor Theodore Levitt asked him: “Why are German companies so successful in exports?”

Simon never let go of this question—and he found the answer not in Germany's large, listed companies, but in the unique characteristics of the German Mittelstand. This was extremely surprising, as it was then and still is often implicitly assumed that a country's export strength stems primarily from its large multinational corporations.

Simon defines hidden champions as medium-sized companies whose products rank among the top three in the world or are number one on their continent. They have an annual turnover of less than EUR 5 billion and are usually unknown to the general public—hence “hidden.” This is because the vast majority of these companies do not deal with consumer products, but concentrate on industrial goods. These hidden champions also focus on their market niche, which they serve worldwide, and achieve exceptional expertise and a high degree of manufacturing depth in their relatively narrow field. In this way, they generate a large part of the export power—and thus also the prosperity—of their respective countries.²⁷

The Hitlist

Simon has identified almost 4,000 hidden champions worldwide—around 1,600 are from Germany, with no other country in the world having as many (USA 350, Japan 283, Austria 171, Switzerland 171, China 125, France 111, Italy 102).^{28, 29}

As Simon pointed out, what is particularly interesting is that many hidden champions use similar, very specific strategies that make their extraordinary success sustainable—regardless of which country they come from. This makes them a role model for many entrepreneurs, and even the Chinese Ministry of Commerce has recognized their high value, launching an ambitious program in 2021 to create more than 1,000 new Chinese hidden champions among its small and medium-sized firms.³⁰

This is also one of the reasons why Hermann Simon's and my research complement each other very well. We are both researching the leading edge of the hidden champions on all continents of the world. And this includes the still little-known Chinese Mittelstand, which, metaphorically speaking, is a forest with tens of thousands of trees that are still young but growing vigorously and playing an increasingly important role.

“We Want to Become the Best in the World.”

Besides the aforementioned characteristics, there are several other factors that differentiate hidden champions from others. First, they boast strong leadership and extremely ambitious goals. It's quite common to hear hidden champion founders and owners say, “It does not matter how big or small we are or how

long it takes—with our products, we want and we will become the best in the world.” Instead of short-term profit maximization, they think in the long term and in generations. What also makes them special are their highly motivated, loyal, and skilled employees, and how close even upper management is to its global customers. For hidden champions, it is quite normal to meet the CEO of a firm doing EUR 5 billion in revenue at a trade show anywhere in the world, enthusiastically engaging with customers at the exhibition booth. They have truly understood one simple truth: innovation does not fall from heaven or suddenly pop out of R&D labs. Instead, it is often derived from a deep understanding of customers’ problems and needs, as well as the trends in the market. Their high level of innovativeness stems from the drive to solve customers’ problems better and faster than anyone else. And by sharply focusing on their special niche, even as a smaller company, they can compete with large enterprises on a global scale.

However, solely focusing on a special niche and products automatically limits the market, so how do these firms compensate for this consequence? The answer is through a very high degree of internationalization. If you combine all the “smaller niche markets” of the world’s countries together, you will end up with a very interesting total market potential. This explains why you often find hidden champions with 500 or 1,000 employees—small firms compared to the large multinational corporations—engaging in more than 100 markets very successfully.^{31, 32}

Fortune 500 and Hidden Champions

For most countries in the world, there’s a positive linear relationship between the number of large firms and exports. This means the higher the number of Fortune Global 500 firms in a country, the higher the number of exports. Interestingly, there are two countries that deviate from this pattern: China and Germany. Compared with other industrial countries that host a similar quantity of Fortune 500 firms, China and Germany show much higher exports.³³ To illustrate: in 2023, Germany (30), France (24), and Japan (41) were all home to a pretty similar amount of Fortune 500 firms (<https://fortune.com/ranking/global500/>). However, the exports of Germany in 2023 (USD 1.67 billion) were much higher than those of France (USD 0.62 billion in 2022) and Japan (USD 0.68 billion in 2023).³⁴ And although China (143) and the USA (136) had a similar number of Fortune 500 firms in 2023, China (USD 3.38 billion) achieved much higher exports than the USA (USD 2.02 billion). One explanation for this deviation is that Germany and China have a high number of successful small world market leaders and hidden champions. As mentioned before, in Germany and China roughly two-thirds of exports are generated by the Mittelstand.^{35, 36, 37}

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