

● OPINION

China strategies: A sense of proportion instead of politicization

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Germany needs an interest-based China strategy instead of the ideological bigotry that is reflected in the drafts of the Ministry of Economics and the Federal Foreign Office. They overemphasize the dependence on China, while the advantages of globalization are neglected.

The first drafts of the future China strategy of the Federal Foreign Office and the Ministry of Economics have been leaked to the public. What is known does not bode well for our country and especially for our economy. Its propagated “values-based foreign and trade policy” quickly leads to ideological bigotry. Nor does it do any justice to the historically evolved complexity of the world and the real balance of power. The G7 countries account for just ten percent of the global population and 45 percent of global income, both with a downward trend.

An interest-based foreign and trade policy, on the other hand, does not focus on what separates us, but on the benefits of joint exchange from the perspective of German – national and economic – interests. This in no way means

relativizing the value of human rights and peace. But it does require recognizing the limitations of the available means and pursuing a policy of sound judgment and proportionality within the framework of a balanced overall strategy. Moral indignation is no substitute for rational policy.

No justification for isolating China

The draft from the Foreign Office assumes that Germany is in a “systemic competition” with China. In contrast, leading representatives of large German multinational corporations emphasized economic competition and partnership with China in their recently made public statement in the German newspaper *Frankfurter Allgemeine Zeitung*. Incidentally, in a recent article for *Foreign Affairs*, the German chancellor speaks of “competing models of government” and rightly emphasizes, in Germany’s interest, that China’s rise cannot be a justification for isolating the country from the West.

The realization that China is an authoritarian party state is not new. As is well known, the successful economic reform and opening policy launched by Deng Xiaoping in 1978 has not changed this, not even during Deng’s time. Despite his distinctly autocratic leadership style, economic prosperity remains the dominant basis of legitimacy for the ruling party under Xi Jinping. This is an important difference from other autocracies. Not least, the recent radical change of course in Covid policy can be taken as an indication of this.

No economic dependence

The paper from the Federal Ministry for Economic Affairs and Climate Action focuses on economic “dependence” on China. A narrative that has been in vogue, especially since Russia’s invasion of Ukraine. However, Germany’s economic relations with China cannot be compared, qualitatively or quantitatively, with its completely one-sided dependence on Russian gas. The factual situation is clearly different.

An example of this is Germany’s foreign trade with China. China is an important, but not a dominant, trading partner for Germany. It is roughly the same size as with the USA and is significantly lower than the trade volume with EU countries.

The situation is similar for direct investment. Chinese investments in Germany amounted to just under 50 billion euros in 2020, which is five percent of all Chinese foreign direct investment. They are thus not only, as the Bundestag’s scientific service writes, “at the lower end” of all Chinese foreign investment, but also rank only 11th among all foreign direct investment in Germany. So-called critical infrastructure is hardly affected.

Preserving the German model of prosperity

A different assessment must be made of the partially high import ratio from China of 70 percent and more, especially for electronics supplies to selected German entrepreneurs in the electrical and automotive industries. Overall, around one-third of all German electronics imports in 2021 came from China. A similar picture can be seen in the import ratio for critical raw materials, in particular graphite, magnesium and rare earth elements.

In these cases, diversification is certainly indicated. However, this is only possible on condition that a core element of the German prosperity model of recent decades – low-cost imports that enable exports with high domestic value added – is not damaged in the long term. Greater economic independence cannot be an end in itself, nor can it be bought by restricting trade to so-called value partners.

A similar situation applies to the cluster risk of German companies in China, above all in the automotive industry. Here, too, diversification makes sense once alternative sales markets have been found. Otherwise, the one-sided reduction of dependency only means a loss of prosperity for German companies and employees.

China more open than USA

A very open economy like Germany's, where the sum of exports and imports accounts for around 80 percent of gross domestic product, must have a very strong interest in the continuation of globalization. We share this interest with China, which, as an economy four times the size of Germany, still has a degree of openness of around 50 percent, while that of the USA is only around 30 percent. It is no wonder that the importance of globalization is viewed differently, regardless of the political system.

In contrast, the foreign and economic ministries cultivate an image of China that judges China mainly on the basis of human rights violations against the Uyghurs in Xinjiang, Beijing's rigid actions against Hong Kong and sabre-rattling on the Taiwan issue. But this is too short-sighted and shows a lack of understanding of China's actual development over the past four decades. Not only China's economic progress, but above all its related social progress, tells a different story.

China's recipe for success: continuity and reform

In the past 40 years, China has lifted around 800 million people out of abject poverty. Life expectancy today – as in the USA – is 77 years and has more than doubled in the aforementioned period. Average per capita income has increased 35-fold over the same period, and infant mortality is only slightly higher than in Germany. Consequently, no country can boast a greater leap in development in the Human Development Index than China: From rank 103 in 1990 to rank 79 today.

These astonishing successes, which are unparalleled in economic history, raise the interesting question of how an autocratic party state with a controlled, state-capitalist economy managed to achieve this. Perhaps the fundamental answer lies in the fact that China's development path does not follow the West's historical patterns of a far-reaching simultaneity of market economy and democracy.

The convergence thesis has always been an arrogance and illusion cultivated by the West. There is much to suggest that China's economic reform process has been successful because it is linked to the continuity of Chinese civilization and institutions of an authoritarian elite society with a high level of competition, and because it has left behind the Maoist chaos with its egalitarianism.

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