

# A Tale of Two Nations Is Told at German-Chinese Economic Conference

by Jonathan Tennenbaum

More than 200 top representatives of German business and economics organizations attended a "German-Chinese Economic Congress" Oct. 22-24, organized in Berlin by the leading business weekly *Wirtschaftswoche* in cooperation with Berlin's Asian-Pacific Forum, China's *Economic Daily*, and the China-Europe Association for Technical and Economic Cooperation (CEATEC). While primarily oriented to the concerns of German companies directly involved in China, the congress not only provided insights of broad interest concerning China itself, but—by ironic juxtaposition—evoked unusual reflections on the profound economic and social crisis now gripping Germany and other Western countries.

Our report concentrates only on some of the highlights of a rather rich three-day event, leaving aside extensive sessions that dealt with legal issues, marketing, trade regulations, and other items of specific technical interest to businessmen.

## China As an Economic Locomotive

The congress opened with a fanfare of optimism, and the notion that cooperation with the rapidly-growing China could provide a crucial way out of Germany's economic mess. It was mentioned several times that German Chancellor Gerhard Schröder will visit China in December, and that major new results are expected.

Stefan Baron, chief editor of *Wirtschaftswoche*, gave the upbeat opening: "China is booming, and many hopes are projected upon her. The development in China is one of the most exciting and most important historical events in our time. Many people don't know, that for many centuries in the past, China was the culturally and technologically most advanced nation in the world. Now, China is taking back that position." Baron also emphasized, that the present trade surplus of China will soon be reversed, and that "in two years, China will become one of the world's biggest importers." Perhaps the example of China will help Germans "to rediscover the values of individual responsibility, frugality, and hard work," he concluded.

China's Ambassador to Germany, Ma Canrong, emphasized the sustained nature of China's development. He noted, "In spite of the downturn in the world economy, China has maintained its growth. China's domestic product will increase by four times by the year 2020, reaching \$4 trillion per year. The whole world economy will profit from this." Trade with

Germany is headed for a new record in 2003. In the first six months of this year, German-Chinese trade increased by 55% over 2002.

Even more upbeat was Dr. Michael Rogowski, Chairman of the Association of German Industry (BDI). "Let's go East, not West," he exclaimed. China is "the most dynamic nation in the world. . . . Since the beginning of the 1980s its economy has grown by an average of 9% per year. The GDP has grown six-fold since 1982. China is the world's largest recipient of Foreign Direct Investment. And the Chinese people are buying everything." One million automobiles were sold there in 2002. This year it will be 2 million, and plans are being made to produce and sell 5-6 million per year. "China is a world leader in the elimination of poverty," Rogowski added. "Deng Xiaoping had said 20 years ago, that some people should be allowed to become richer earlier than others. And all will profit from the cake becoming bigger. And now we witness the impressive prosperity of China's coastal cities. But also the West of China has become richer."

Rogowski also pointed to improved intra-Asian relations. "India and China have become closer," and China's economic relations with its Southeast Asian regional neighbors are rapidly intensifying. He emphasized that China is by no means relying only on cheap labor power. On the contrary, enormous efforts are going into education, research and development. "China is a source of hope for Germany," which has become the world's single biggest industrial exporter, Rogowski said. Some 1600 German companies are already working in China and Chinese companies are beginning to invest in Germany.

But, the well-known expert on China, Prof. Eberhard Sandschneider, used his speaking time very deliberately to pour cold water on the "China euphoria" some business leaders and politicians have been spreading. Yes, China is booming now, and yes, big firms especially—so-called global players—"cannot afford not to go to China." But small and medium-sized companies (Germany's famous *Mittelstand*) should be careful, not to be lured by the euphoria into thinking that they can have easy success and quickly make money in China. On the contrary, they must reckon with the probability of considerable difficulties and risks of the sort big companies can easily deal with, but which can be ruinous for small ones.

Worst of all, Sandschneider warned, is when *Mittelstand* companies that are in trouble at home in Germany, are



*The collapse of Germany's economy, seen in mass unemployment and the desperation strikes against the SPD governments cuts in all benefits—the DBG union confederation demonstrated in the weekend of Nov. 1-2—has bred pessimism about the country's prospects. German business leaders long for salvation in China's strong growth; but they may not understand how rapidly China is changing. German policy must change, to promote Eurasian Land-Bridge infrastructure and LaRouche's New Bretton Woods.*

encouraged by politicians and others to run off to China in search of a solution. Sandschneider also debunked simplistic prognoses concerning the future development of China itself. “No country of that size can develop in a linear way”; i.e., one can't just extrapolate today's statistics into the future, he cautioned.

Sandschneider pointed to major problems and risks facing China, including: hundreds of millions of people looking for jobs; the giant income and development gap between the coastal and interior regions, which threatens to “tear the country apart”; the spread of corruption; the threat of HIV-AIDS and other diseases, like SARS; the danger of a drop-off of foreign investment and export income; problems of providing adequate energy, water, and other resources; the danger of military conflicts, etc. On this basis, the expert declared that nobody can predict with any degree of confidence what the overall situation in China will be ten years from now. (The same thing, quite clearly, applies to the world economy as a whole!)

At the same time, however, Sandschneider warned against *underestimating* China's industrial and intellectual potentials, for example in the area of science and technology. And as he and several other speakers emphasized, it is only a matter of time before Chinese multinational corporations appear on the scene, able to rival those of the United States, Europe, and Japan.

There was much fanfare at the Berlin conference about China's entry into the WTO, and the relatively “good grades” China has earned, initially, in terms of compliance with its

rules. But neither Sandschneider nor others elaborated much on the potentially very severe domestic problems that could arise, were the far-reaching “free trade” concessions China made for entry into the WTO, to go into full force.

## **Mega-Projects**

In a series of presentations, German and Chinese experts examined the perspectives for investment and economic development in China's main economic regions. Besides the booming Shanghai and Yangtse River delta area—where up to now the lion's share of German investments have been going—special attention was given to “alternative investment areas”: Beijing and Tianjin in the Northeast; the Pearl Delta region in the South (where investment has been dominated up to now by Taiwan, Hong Kong, and overseas Chinese); and the Western-Central regions now favored by the Chinese government's “Go West” policy.

The conference being mostly oriented to the business community, much attention was given to the prospects of getting a “piece of the cake” of two forthcoming “mega-projects” in China: the 2008 Olympic Games in Beijing; and the 2010 World Exposition in Shanghai; which together involve projected investment volumes of \$50-65 billion. One might wonder how a sports event and a fair could involve such gigantic sums. In fact, the Chinese authorities are using them as an occasion to drastically upgrade the entire infrastructure of the relevant regions.

Mathias Kleinert, member of the board of Daimler-Chrysler, emphasized that the projected \$35 billion invest-

ments in projects connected with the 2008 Olympiad, will include “a vast expansion of infrastructure in Beijing and Qingdao,” on the basis of “the most modern technologies available.” This emphasis on high-tech infrastructure—including transport, communications, and environmental systems—will mean “a great step forward in the modernization of China,” Kleinert said.

Meanwhile, Shanghai is already beginning to gear up for EXPO 2010, which will see an investment of between \$15 and \$30 billion in construction of exposition buildings, in transportation, and in modernization projects. An entire region of Shanghai, covering 400 hectares and now housing 25,000 inhabitants, will be completely rebuilt. Some 70 million visitors are expected for the Expo. Some 200 pavillions will be built, that are to remain as permanent structures. Shanghai is using the occasion of the Expo 2010 to modernize its entire urban infrastructure, to raise it to “world standards,” with particular emphasis on transport, parks and green areas, and modernization of schools, universities, hospitals.

Shanghai is the focus of several city-building projects in which German firms are participating. These include construction of a 68 square-kilometer “Shanghai Motor-City,” to house major facilities for international automobile concerns with emphasis on research and development; and the creation of “Luchao New Harbor City”—an entirely new satellite-city of Shanghai, with 300,000 inhabitants. This is added, of course, to the successful Chinese-German Transrapid project, a magnetic levitation train line connecting Shanghai city center with the Pudong international airport. The Transrapid is now in commercial service, operating routinely at speeds of over 430 kilometers (260 miles) per hour.

## China's ‘Go West’ Policy

Thomas Fok, member of a very prominent business family in Hong Kong, spoke about the perspectives of development in the interior regions of China—a “Go West” policy. The western and central regions, he said, are “China’s New Frontier.” They comprise 5.4 million square kilometers, or two-thirds of the land area of China, and 23% of its population—approximately 300 million people. A large part of that population is concentrated in a few dense areas, like the super-city Chongqing (31 million), and the provinces Guangxi (48 million) and Guizhou (38 million).

Some years ago, the Chinese government announced a new policy for developing western regions of the country. Many thought this was just talk, because the vast bulk of investment continued to flow into the prospering coastal areas. But now the Chinese government is getting really serious, Fok said.

Originally the strategy was to allow the coastal regions to develop at the expense of the interior, assuming the coastal development would then radiate into the western regions. “But the wealth has remained on the coast. . . . Currently the average coastal dwellers have cars, have tried sushi, travel to

international destinations, and buy digital cameras; meanwhile some of their western cousins still ride around on horse carts, eat subsistence food, live in mud houses, and have no idea what a TV is. . . . Each year, tens of millions of jobless from the western regions migrate into the coastal cities seeking employment of any kind, causing social problems, and taking back with them resentment and the desire for wealth they have seen in those coastal cities.” The “bourgeois run-away” on the coast, accelerating the gap between the “the haves and the have-nots” in the country, is now seen as threatening the very stability of China, creating “a sense of urgency never encountered before.”

With the Chinese central government now fully committed to developing the West, and the local governments “prepared to lean over backwards to provide advantageous terms for investment,” foreign companies “should take a new look” at these regions of China. Here, in the resource-rich interior, lies the potential for a “second economic boom” which could sustain the overall growth of China for a decade or more to come.

On the one side, the Chinese government is pouring investment into large-scale infrastructure projects, such as the \$25 billion Three Gorges Dam project, the \$8.9 billion Hotan gas pipeline project, large-scale power plants, rail, road, and water projects. On the other hand, the central government is offering extremely attractive conditions to private investors. These include: special concessions for infrastructural investments; transport rebates; tax breaks; granting of land use at low or zero cost; and the possibility for foreigners to obtain majority holdings in state-owned enterprises. Fok strongly recommended that potential investors first travel personally to the Western regions—to get a first-hand view of problems and prospects—and then establish close relations with relevant agencies of the central government, before contacting the local governments. The government in Beijing can remove many obstacles, and insure that development occurs in a coherent, non-redundant way.

## Will China Eclipse Us All?

As a participant in a number of “China investment” events in Germany over the last six years, this author could not help but notice a striking change in tone among German business executives at this Berlin meeting. Gone was the cocky, sometimes even arrogant attitude—“We are the best, we will show the Chinese how to do things.” The reason was not only easy to guess, but was explicitly addressed by a number of leading executives themselves in speeches: the economic disaster in Germany, on the one side; and the breathtaking rate of improvement in the industrial, technological, and engineering potency of the Chinese on the other. Several speakers said it in nearly the same words: “The time has come, when it is our turn to learn from China.”

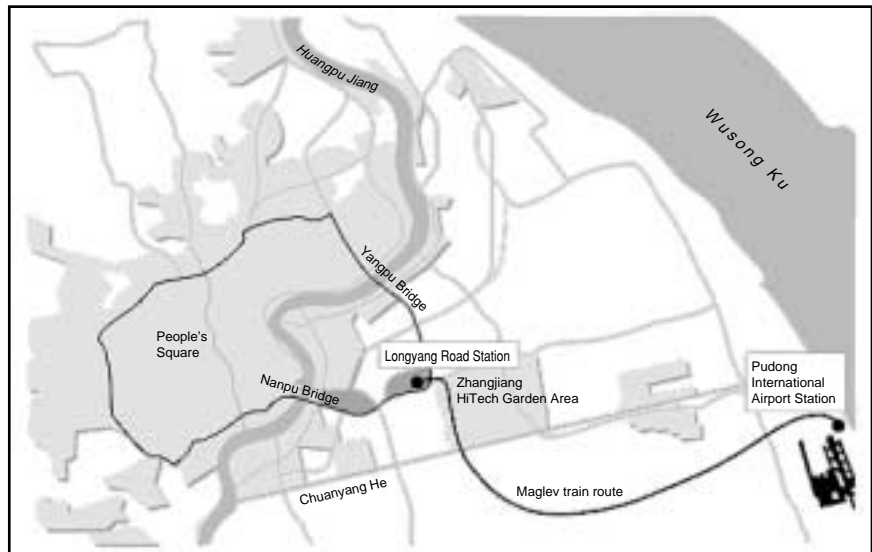
A striking case in point is the construction, in record time, of the 30 kilometer-long Transrapid maglev line from Shang-



*Shanghai (above right) and other coastal areas were the foci of rapid growth in China in the 1980s and 1990s, and the landmark of Germany-China cooperation is Shanghai's operating maglev railroad, also a technology-transfer project. Above left, Prime Minister Zhu Rongji and German Chancellor Gerhard Schröder ride smoothly at 430 kilometers/hour; the map shows the train's route. But China is rapidly mastering the technology itself, and built the track to within higher tolerances than those achieved in Germany. China is also deliberately shifting its growth and development to the central and western regions, the country's interior.*

hai to Pudong. An inside view into this process was provided by Dr. Jürgen Feix, of the Munich company Chronauer Beratung Planung (CBP), which carried out the transfer of crucial technology to the Chinese for the support structure of the maglev track. This included an intensive, 10-week “crash course” for Chinese engineers—who on that basis then calculated, designed, and built the track structure on the basis of their own, modified specifications, with a cost saving of 20-25% compared with the original German design! An entire production facility was built up in Shanghai for the structural elements of the track, which Feix called “currently, probably the most modern facility of its type in the world.” He gave special credit to the now-legendary “Commander Wu,” a retired Peoples Liberation Army general who directed the Transrapid project from the Chinese side. The Chinese engineers and workers not only completed the track construction in a mere two years, but “they worked with unbelievable precision,” achieving significantly better tolerances than on the Transrapid test track in Germany.

### The Shanghai-Pudong Transrapid Maglev Project



Source: Transrapid.

Feix warned German companies that “establishing a long-term foothold in China is not so easy.” The Chinese have become extremely quick at absorbing technology and know-how, and then continuing on their own without any further

need for foreign assistance. There was practically no opportunity to employ ordinary German engineers in projects in China, because the Chinese engineers are as good, if not better. Most of the ones involved in the Transrapid project were top cadre having university education and training qualification abroad. "The only area where the Chinese lag behind, is in technological innovation," Feix concluded. In the future, practically "the only thing we will still be able to sell to them, is new creative innovations."

No objections were raised in the audience to Feix's characterizations on this account—to the contrary! If there had been lingering doubts about the Chinese engineering capabilities, China's first, successful manned space mission, completed a week before the congress, should have removed them. Just two days earlier, at a seminar on German-Chinese space cooperation, this author witnessed European space engineers taking their hats off to their Chinese colleagues. In modest tones, the Vice Director of China's Executive Center for Space Science, Wu Ji, indicated to his audience that China was setting its long-term sights on—the Moon! Parallel with the development of a Chinese manned space station, China will carry out extensive satellite surveying of the Moon, developing a precise "3-D map" of the entire surface. This is preparatory to later missions leading, among other things, to the possible mining of Helium-3 on the Moon as a fuel for advanced forms of controlled fusion power. Needless to say, this "Promethean" attitude toward the future has virtually disappeared not only in Germany, but in the U.S.A. and other Western countries as well.

Another "cultural shock," repeatedly referred to at the congress, is the growing trend of Chinese investors buying into, or even taking over Western corporations. A sensational early example, is the purchase of the aircraft company Fairchild-Dornier by the Chinese industrial and financial group D'Long.

The author got another taste of this culture shock at a reception during the congress, when he fell into conversation with a couple of senior German industrial managers. Listening into the discussion was a youthful Chinese, whom the author took to be a student. At a certain point one of the Germans said, "Let me introduce you to my boss," and pointed to—the "student"! The Chinese student" turned out to be one of the new breed of young investors springing up in China; he had recently purchased a controlling interest in the German manager's company.

## Germany's Existential Crisis

Although the theme of the *Wirtschaftswoche* congress was business and investment opportunities in China, discussions repeatedly turned toward the miserable economic situation in Germany, which is in the grip of the worst economic crisis since the end of the war: mass unemployment; wave after wave of bankruptcies among the small and medium-sized industrial firms that once formed the heart of Germany's econ-

omy; de facto insolvency of most of Germany's municipal and state governments; and so on through other sorry stories. But what repeatedly came up in speeches and discussion was the *subjective* state of Germany—the deep demoralization of the population and the "elites." This might not be apparent to someone only living and seeing Germany from the inside; but no one who returns to Germany after having spent time in the booming, prosperous, and optimistic metropolises of China, can help being shocked by the incredible contrast to Germany's depressed atmosphere.

Since many of the participants shared this experience, it was only natural for discussions to gravitate around the reasons for it.

An interesting case in point, was a banquet speech by Edmund Stoiber, chairman of the Christian Social Union (CSU) party. Stoiber called China's development an "a breakthrough beyond all imagination," and highlighted the contrast to Germany today. While unfortunately not attacking the policy of brutal cost-cutting in social services—now favored by all the large parties in Germany, and merely accelerating the depression spiral—Stoiber repeatedly emphasized that "cutting costs will not solve Germany's problem. . . . When scientific research and development stagnate, society goes into a downward spiral." He condemned efforts to cut the budget of the Max Planck Society, and pointed to the tendency for talented young scientists to emigrate from Germany, which, he noted, is a far bigger problem than foreign emigration into Germany.

"We are investing far too little into scientific research and development," according to Stoiber. The only way to secure a future for Germany is to drastically upgrade the role of education, science, and technological innovation, and to take measures to reverse the collapse of birth rates, which has created a major demographic problem of over-aging of the population.

Then, in a point no doubt reflecting the impact of Lyndon LaRouche's youth movement—which recently made a powerful intervention into the elections in Stoiber's home state of Bavaria—the CSU chairman emphasized the plight of the younger generation, in a manner similar to that of LaRouche's many statements on the matter. Their parents' generation—the generation of the 1968 "student revolution"—had turned against science and technological progress, Stoiber said, in favor of "having a good time." Up into the early 1960s, new technologies were greeted with enthusiasm, just as in China today; but after that the attitude of the German population was reversed. Today, technological progress is regarded with suspicion, the mere mention the words "enriched uranium" evokes hysteria. This attitude, Stoiber implied, is a chief reason for the decline of Germany's economic strength, the rise of mass unemployment, and the fact that "young people today are no longer assured a productive place in society, in the way people had virtually taken for granted in the 1960s."