Q & A

Jörg Wuttke on China's Self-Destruction

The EU Chamber of Commerce in China president talks about China's self-inflicted problems; how he gets away with being so outspoken; and why he believes in China's comeback gene.

BY ANDREW PEAPLE — AUGUST 14, 2022

Jörg Wuttke is currently serving his third term as President of the European Union Chamber of Commerce in China, a role in which he has become known for his frank views on the local business and economic scene. A longtime resident in China, Mr. Wuttke is also a member of the Advisory Board of the Mercator Institute for China Studies (MERICS). The following is a lightly edited transcript of an interview in which he discussed China's zero-Covid approach, the current business climate and European companies' commitment to China.

Jörg Wuttke.
Illustration by Lauren Crow

Q: Let's start with a recent survey that you've done at the European Chamber that suggests that nearly a quarter of European companies now in China are thinking of shifting investment out of the country, about the highest level in a decade for that question. What do those companies need to see from the party and from the leadership in Beijing?

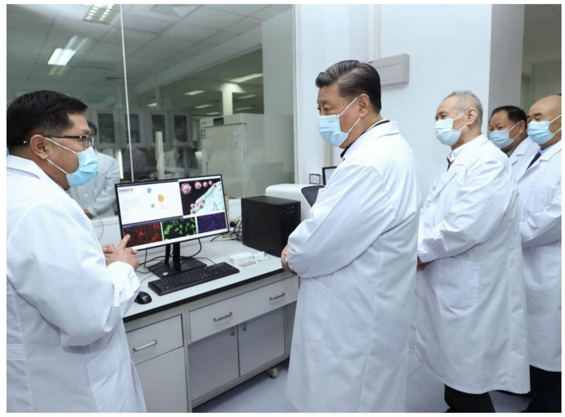
A: The question we ask is: Are you considering shifting any planned or current investment out of China? And that's like asking someone, 'Are you considering a divorce?' You might get a very high response rate. But at the same time, there is a difference between that and companies saying they are actually moving out of China. Everything I can sense is that we are hanging on in the market. We [European companies] aren't cutting headcount, we are just trying to weather the storm.

But clearly because of Covid, because of the uncertainty in the Chinese market and policymaking as well as Ukraine, our corporate headquarters are understandably putting investment in China on hold. They cannot travel to China, our executives cannot enter China properly, even though now they are happily able to travel in Southeast Asia. So future investment might actually end up in these countries because China is simply not reachable, and that should be concerning to Beijing. Also, the marketing genius of Chinese mayors and regional governors doesn't really work anymore, because they can't travel either.

Can Beijing try to signal somehow when this might be over?

They can signal anything they want. But if they haven't fixed the base problem of the lack of good vaccination across all age groups, this country will be vulnerable. And as long as it's vulnerable, it's going to be in a situation where it can't justify opening the border. I would not open the border myself if I were in office right now.

Do you think the reluctance to have a foreign vaccine is a legacy of the trade tensions that we've seen between the West and China?



A photo from the 2nd of March, 2020: Xi Jinping visited the Academy of Military Medical Sciences in Beijing to learn about the progress on the vaccine. Credit: Xinhua/Alamy Stock Photo

It's less about the trade sanctions than it is purely nationalism. It's simply the fact that they look through the glass of the "West is going down and the East is rising," and they have had a relatively successful two years. To tell the population that "By the way, now we need foreign vaccines" is a very hard thing to sell. They're locked into the narrative of "We can do it alone, and we have done it right." Now reality is taking over. They simply cannot admit that they have to change, meaning their system is not as strong as it appeared to be. Frankly, business couldn't care less. We just simply want to have vaccinations done and get on with this.

How worried are you about the state of the broader economy and the government's ability to revive the country's fortunes?

I arrived 40 years ago. I'm one of those fossils. I've been living in China on and off for more than 30 years. I've witnessed many crises over here, including 1989, as well as SARS in 2003, the global economic crisis and the knock on effects — even the Asian financial crisis in 1997. Nothing looks like this. We never had this before. Not even really in March 2020. The inability to change policies is something new to me. Chinese politicians and technocrats used to be really good at getting a pragmatic policy up and running. The fact that they are now willing to take an economic hit is a new dimension to me. I'm really puzzled.

BIO AT A GLANCE

AGE	63
BIRTHPLACE	Ulm, Germany
CURRENT POSITION	President of the European Union Chamber of Commerce in China
SPOUSE	Galina

It's obvious that it is creating unemployment. About 10.6 million graduates are coming onto the market this year. How are they going to find a job? We were already facing economic headwinds from the real estate sector and U.S. sanctions. We had the tech crackdown last year. So it was already not very pretty. China has lacked consumption power and in a way has become more dependent on exports than ever before. With all of that, they were already not in a good place, and they chose to lock away the best city in China — Shanghai. That's beyond me. And again, it is self-inflicted: This would not have been necessary if there had been a decent vaccination campaign last year.

To make more cheap money available to build more streets and bridges and opera houses, that possibly nobody needs, would be one possible response. But people want predictability; they want certainty that the economy is going to be back in stable waters. Throwing money at the economy, like in the spring of 2020, worked really well. But now it's a confidence issue, and you can't throw money at confidence. You can only basically resolve this by having policy changes, by making people feel like we care for you — and hence we will now start with vaccinations; we will do whatever it takes in order to get a third booster shot from a different vaccine. None of this is happening. So Chinese entrepreneurs will definitely withhold investment, not just us [foreign companies]. In fact, they will possibly be feeling more stressed because we are multinationals that can still enjoy doing business all over the place. China is limping and these guys have no alternative.

Mass Covid testing in Macau, August 5, 2021. *Credit: Renato Marques via Unsplash*

I wonder how long the party is able to take the pain in order to carry on with this zero tolerance approach. They're more ideological than ever before. Keep in mind that we're going to have a new Politburo in the autumn and everybody is keen to look at his or her best. And that means having zero Covid cases in their respective regions.

Do companies still see China as a market with huge potential growth?

Let me first say something that might be surprising: China is a very small market when it comes to exports out of Europe. Up to about five years ago, the European Union sold more into Switzerland than into the People's Republic of China. China is incredibly successful in selling into Europe: about 1.3 billion euros worth of Chinese goods are sold into the European market per day, whereas we are selling 600 million euros worth into China. So in a funny twist, they rely more on our consumers as a market than we rely on the Chinese market. It's actually quite shocking.

A worker performing a quality control check on a Volkswagen Tiguan at the factory in Anting, China. *Credit: Volkswagen AG*

We are very happy to invest here in China. We have high numbers of employment, we have huge success stories. The car industry, in particular, is extremely well represented over here. But that's for a reason. If you look into global car sales from 2010 to 2021, without China, demand fell by 5 million cars. During the same period, car demand in China rose by 8 million cars a year. So you have to be in China in order to tap into this growth potential. In chemicals, 60 percent of global growth is in China. So if you're not at the table, you're going to be on the menu. You have to be in this market as a global player.

But again, that means that you have to have access to the market and that's where it's getting dicey. In many cases, we have marveled at the development, the size and the speed of the growth of China. But we have our noses pressed against the window watching it because we can't enter; we can't play along because of market restrictions.

Nobody doubts the long term aspects of Chinese growth. We did a study last year with three scenarios. Even in the worst case scenario, GDP per capita in the next 30 years in China is going to double. But the potential could be so much higher if they globalized and opened up. So the question I have is that once China gets over the Covid crisis, and the economy definitely has taken a major hit, are they then willing to open up more and embrace European business more, in order to get out of the woods?

Premier Li Keqiang and Jörg Wuttke at the Symposium on the 70th Anniversary of China Council for the Promotion of International Trade (CCPIT) held in Beijing. May 19, 2022. *Credit: Jörg Wuttke via Facebook*

There seems to be a disconnect in the rhetoric from Chinese leaders. European Chamber members represent businesses that are successful over here, otherwise they wouldn't be members. But the situation is constrained, and many companies that are not members are stuck in Europe because they can't access the market. There's no data set of those that are losing out, but European exports into China tell the story.

So far, there have been many promises [about market access] — but we have what we call promise fatigue. There is a hope that once they recover, maybe next year, from this Covid disaster, then maybe they will be more forthcoming and will embrace us. So far, the rule has really been "Do I need you? — then my market is open. Or do you want me, but maybe I don't really need you? If I don't need you, our market is closed."

Rather than pursuing deals like the Comprehensive Agreement on Investment [an EU-China deal on mutual investment, agreed in late 2020 but not yet ratified by the European Parliament], should the EU be joining with the U.S. and saying, "Look, enough is enough, you haven't lived up to what you promised under WTO, you haven't given us the same level of access that we've given you over the years, it's time to push back?"

European decision makers were too naive for too long. But increasingly, they have got their act together. The real shift came four or five years ago. Now the European Commission has labeled China — rightfully — as a partner, competitor and a rival. That sums the situation up, and the business community is behind that. We have been too open without asking for reciprocity for too long. We believed the promises [given by China] at the time of WTO accession, frankly because at the beginning, those promises were fulfilled. WTO accession was a great step for all of us, the opening up and so forth. But it has been very tiresome since about, I would say, 2008, or 2010.

MISCELLANEA

FAVORITE BOOK	*Identity: The Demand for Dignity and the Politics of Resentment* by Francis Fukuyama
FAVORITE MUSIC	Jazz, Miles Davis
FAVORITE FILM	*Out of Africa*
PERSONAL HERO	Former German president Richard von Weizsäcker

The [CAI] agreement, which was negotiated over seven years, was not a shining example of a big success in a trade deal, but it was tiny baby steps in the right direction. We wanted it. And then, of course, the sanctions [against members of the European parliament, which China imposed in 2021] happened, and now it's somewhere between the morgue and the ICU. It is very sad that these little steps are not being taken.

Now the Europeans have actually sharpened their toolbox. They have investment screening, they are now coming up with a new economic coercion law. They are looking into an international procurement instrument. So they're eventually getting there. But of course, we are tiptoeing around the fact that we have to maintain our own liberal, open-minded, open trading DNA. We cannot become like China, it's impossible. That would not be us. We want more Chinese investment in Europe, certainly. But at the same time, we want to know: Who are these SOEs [state-owned enterprises] that are popping up in our market?

> **“[The opening up] is always very selective, very mercantilistic and frankly, very disappointing.”**

There is movement [from China], but it seems that there is only movement once China actually feels competitive enough. They always wait until their own industry is ready to take on competition. And when, frankly, an industry has become not very interesting for us anymore, that's when they open up, and we see the dragon dances and so forth and we are permitted to enter the station. But then we see the train has left already. We had this in refineries. We've had this in many other areas: gasoline stations, where they only let us enter the marketplace once it was not interesting anymore.

So in banking, we have only a solid 0.2 percent market share as European bankers — we are niche players at best. In insurance, it's slightly better but less than a one or 2 percent market share, I guess, as Europeans. So [the opening up] is always very selective, very mercantilistic and frankly, very disappointing.

The BMW 7 Series world premiere in Shanghai, China, January 16, 2019. *Credit: BMW Group*

At the same time, if you're lucky, if you're in manufacturing, if you are in chemicals, if you're in car manufacturing, you have some constraints, but otherwise it's all gung ho; it's all going wonderfully for you. And they are opening up even more now for the car industry. It used to be that foreign companies were concubines of Chinese SOEs: now Tesla has a 100 percent [owned subsidiary] and BMW can have a bigger share of its joint venture. So it's happening, but again, in slow motion, and only for a select few. But those companies certainly are very happy about the Chinese market.

The Russia-Ukraine conflict has led to a lot of soul searching about the European economy's reliance on Russian energy. Is there a similar soul searching going on now about potential over reliance on China?

Given that we actually export so little to China, and that we have so many constraints over here, we would love to be more dependent on the Chinese market: But we simply cannot. In the car industry, half of European group turnover comes from China, for example. So are we willing to say that because of geopolitics, we will withdraw from the marketplace, and then deflate our sales, deflate our engineering capability, deflate our R&D ability, and then tell our employees, “Sorry, guys. I have to lay you off because we have lost 20-25 percent of our marketplace?”

Does that serve our headquarters and our home base? It certainly does not. What we really have to do is to become more diversified in areas where we might be subject to Chinese coercion. Some companies and countries have done soul searching to say, “Okay, if we are so dependent on China, maybe we should do more back home.” That is actually valid.

Jörg Wuttke spoke to Tian Wei on CGTN's World Insight about challenges faced by European businesses in China, April 7, 2021. *Credit: European Chamber via Twitter*

But the question is, are we willing to pay for it? Are we willing to subsidize our industries in order to be closer to home? That's always where it bites us: the customer says, "You know what, your policy is very nice. But I want to have something which works and is cheap, meaning made in China." And that's where it gets difficult. We do certainly have to look into batteries. We have to look into raw materials, rare earths; there's a lot of things. But we should not kiss goodbye to the rest of it. That would definitely cause problems in employment and research facilities back home.

Should companies be shifting supply chains out of China to other parts of Asia, and maybe back home even to Europe?

They should shift out of China if the cost structure is not there, if they have entrepreneurial reasons. But the majority of our companies are not in that segment. For products such as shoes, textiles and certain electronics, they can be manufactured in other places where the hourly labor rate is much different; that is a novel development that could cause a company to leave China. And then, of course, companies have to leave if they can't justify their supply chain — meaning if they are in textiles, for example, and they can't audit their supply chains, and don't know if there's a forced labor issue somewhere that can't be checked by independent third parties, then they had better leave. But at the same time, then they could fall foul with the Chinese.

Click here to read Crisis of Confidence, *a cover story about the social auditing industry, by Nithin Coca.*

Should companies not be thinking about issues like what is happening in Xinjiang, and the human rights abuses there? Aren't companies going to get more pressure from their own stakeholders and shareholders on such issues?

Well, we are getting more pressure: and frankly, it's justified. There are human rights violations in China. And we have these problems. We should talk about Xinjiang. I do this with the Chinese leadership and various parties, in order to explain to them that actually it's not ill will from our side, or a political statement, it's just simply if I can't prove it's not a problem, I'll move on.

At the same time, you also have to keep in mind that our operations here are operating normally, meaning we have all the ESG things in place and know how to deal with this. And we don't distinguish by religion or by gender. We try to instill a European sense of how to do business and how to manufacture over here. It's also vital to understand that in many ways, our supply chains back home are totally dependent on China, in the sense that if I have projects in China, I use my engineers back home; and if I don't do projects in China, and I cannot find an easy location elsewhere in the world, then basically I have to let go of that engineering capability and send people home. The implication is that we have a million jobs in Germany alone that are dependent on the Chinese market. And these are all top end jobs. Now am I going to say that for political reasons, because of the uncertainty of geopolitics, because of the uncertainty of a possible blockade or war over Taiwan, would you please go home? Of course not. We are responsible to our shareholders.

What about what has happened with Lithuania in the past year, after it allowed a Taiwanese representative office, and then faced efforts by China to coerce it into changing its stance? Should the EU be standing together with its smaller member countries when China tries to coerce them?

Clearly, we have to show solidarity, although it was a screw up from Lithuania not to inform its partners of its intentions. The Lithuania case was basically a bilateral issue, but it became a European domestic market issue after China penalized companies sourcing from Lithuania, basically putting them on a blacklist. That's impossible and that has been addressed: there has been some progress.

But at the same time, you have to ask yourself why, if you have 15 Taipei representative offices across the European Union, why in the world do you have to call [the representative office] Taiwan? Why do you have to provoke and poke the dragon in the eye? There has to be a bit of sensibility. There should be some resolution on this issue, but both sides have to move. Europe has shown resilience and we should definitely show solidarity. It's a tough thing because we are 27 countries, and we have various degrees of love for China.

The Taiwanese Representati...
@TW_in_LT · Follow

Hello world! Sveiki and 歡迎!
Welcome to the official Twitter account of The Taiwanese Representative Office in Lithuania!
Follow us for updates on #Taiwan and its relations with #Lithuania! 🇱🇹 ❤️🇹🇼

3:16 AM · Nov 18, 2021

709 Reply Copy link

Read 47 replies

Are you seeing a shift in the way that foreign businesses are being run in China?

We have localized already to a very large extent. The majority of companies, even for multinationals, it's possible that 99 percent of their staff here are Chinese nationals. As for expats, if you ask people now, after three years of Covid, if they would stay for another two years, most people would say, "Are you crazy?" And then finding new people to replace them, after everything on TV they see from China — that's nearly Mission Impossible. We can run our existing operations pretty much on a localized basis. But the fact that we don't have new staff coming in will be a drawback for future investment.

> **"It was tough to learn Chinese, now nobody wants it. This place was booming, and now all of a sudden, I'm back to square one."**

Jörg Wuttke (second from left) at the European Chamber 20th Anniversary Conference, held on November 25, 2020 in Shenzhen, China.
Credit: European Union Chamber of Commerce via LinkedIn

We like to have young European managers coming over here, to get the "China bug" in the good sense, to see the can-do atmosphere, the kind of fitness club for doing business China has, the speed, the optimism — and then basically have these youngsters go back to our headquarters to say, "Maybe we should do it Chinese style." There is quite a lot that we can learn from the Chinese marketplace. But with the low availability of those sorts of people coming over here, we are actually cutting ourselves off from that kind of expertise.

And it's very bad for China itself. Diversity is being neglected over here. And we know that research and development in innovation clearly depends on diversity. It's very interesting to see that Shenzhen is such an innovative city, because 60 percent of all the residents come from outside Guangdong. It's a melting pot within China. If you were to add in all the international talent coming from Asia, from America, from Australia to Europe, you can imagine the potential.

It is very sad to see, after my 40 years here. It was tough to learn Chinese; now nobody wants it. This place was booming, and now all of a sudden, I'm back to square one. People in Germany are more interested in learning Japanese these days than Chinese.

After what we saw with Huawei, how much of a concern is it for foreign business people that they might get caught up in some geopolitical crisis that's way above their paygrade?

It's a big concern. In particular as we have to educate our members that whatever comes out of Washington, study it and implement it, it might actually really kill your company if you don't follow this. I must say, I think the Chinese side has shown great ability to learn. There has been a much better approach towards following sanctions, for example, towards Russia. They have been quite tightly implemented by those that matter. There are some Chinese companies that have no assets in Europe or in the U.S., that now are taking advantage of the situation. But all the big players or medium-sized players, they're all following them to the letter, because they have seen the Huawei case. So I'm always trying to tell European decision makers, "Don't talk about sanctions against China, as China is fulfilling the sanctions."

> **"For me, the biggest risk in doing business in China is not to be in China."**

It's all about studying and being alert. We launched a paper last year in January, about the danger of decoupling. It's a reality, like it or not, you have to follow [U.S. sanctions on China]. And the same thing, of course, applies to sanctions from the Chinese side. You have to be very cautious about the fact that all of a sudden, you might be subject to Chinese sanctions.

You seem to be in a position where you can be relatively outspoken and quite honest in your criticisms of China and the government, in a way that others maybe don't get away with. How have you achieved that balance?

I trust that if I have my facts right, if I'm polite, if I'm balanced, if I'm not just China bashing, but actually I speak up for China in many areas, then the other side is going to be more accepting. They certainly don't like criticism — who does? — and here they are very thin-skinned. But at the same time, my sense is they're serious people that you can talk to about everything. Every meeting I have had with ministers recently included the topic of Xinjiang. Of course, you expect a lecture on terrorism: I never got this. My interlocutors are, of course, more in the ministries of innovation or the environment or economics. They are very eager to see where the delta is. There is still a passion to get better.

Wuttke with Ren Hongbin, the chairman of the China Council for the Promotion of International Trade. During their meeting on the July 12, this year, they discussed vaccination policies, sanctions, and Xinjiang, among other things. Credit: *Jörg Wuttke via Facebook*

Sometimes it feels like there is acceptance of what I say because, just as in medieval Germany, you need a harlequin to speak truth to power. Maybe I'm the harlequin of lobbying in China. I generally meet with good people over here, although I can imagine that the *Global Times*, or the Ministry of Foreign Affairs and others are fuming every time I say something.

What makes you still optimistic that things can get better?

In my 40 years experience in China, living here for more than 33 years, China has always had the comeback gene. And whenever the going gets tough, they push aside the party hacks and the technocrats take over. The going is really tough right now. It's not nice. And I see the country I love a lot in self-destruction mode, which is painful to watch, as it could be dealt with differently. But at the same time, I have faith that it's going to change. For me, the biggest risk in doing business in China is not to be in China.

Andrew Peaple is a UK-based editor at The Wire. Previously, Andrew was a reporter and editor at The Wall Street Journal, including stints in Beijing from 2007 to 2010 and in Hong Kong from 2015 to 2019. Among other roles, Andrew was Asia editor for the Heard on the Street column, and the Asia markets editor.
@andypeaps

COVER STORY

Pole Position

BY EYCK FREYMANN

In public, Chinese diplomats and climate negotiators deny that they see any link between climate change and geopolitics. But there is a deeply cynical consensus within China's academic and policy communities that climate change creates geopolitical opportunities that China can exploit — and must exploit before its rivals do. Greenland was the proof of concept for this strategy. And it caught the U.S. flat-footed.

THE BIG PICTURE

Transsion's Triumph

BY GARRETT O'BRIEN

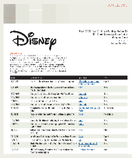
A look at Transsion's monumental growth, unique marketing strategies and future growth potential.

NEWS AND ANALYSIS

BGI Shakes Up Sequencing

BY GARRETT O'BRIEN

BGI has entered the American genome sequencing market for the first time, forcing scientific innovation to clash with national security.



Visit News Products Store

News Products

Our best open-source research on Chinese companies, as well as industry guides to 100 of the most influential people in a China-focused industry.

The Wire China Archives

Read More Articles ›