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**Report on  
“How to deal with China — A Dialogue between European and Japanese experts on China”  
DIJ Tokyo, 4 April 2024**

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**Report by Torsten Weber, DIJ Tokyo**

*The impressive rise of China has had a major impact on the world economy. There has been a strong belief or hope that China’s economic development and its increasing integration into the world economy would also spur political reforms at home towards a more inclusive and democratic society. However, recent trends seem to refute these expectations. Under Xi Jinping’s leadership, the Communist Party has redefined its ideological stance propagated as Socialism with Chinese characteristics, strengthened regulations towards state surveillance, upgraded its military power, and moved away from the original “one country, two systems” approach toward Hong Kong while upholding its claims over Taiwan. Internationally, supported by extensive infrastructure initiatives, China is positioning itself as new global power, a leader of the Global South, and a challenger of US hegemony. At the same time, China also faces many issues at home, such as regional disparities, widening income gaps, environmental pollution, climate change, demographic change, and a real estate bubble. Given China’s indisputable economic and geopolitical importance, China cannot be ignored or de-coupled. It is at the same time a partner and competitor as well as an ideological and potential military opponent in the evolving multipolar world order. When dealing with China, how should we evaluate these different aspects? How should we balance the advantages of economic integration with political and economic security concerns? How can we maintain a constructive exchange without jeopardizing our own interests? In short: how should we deal with China? This conference, hosted by the DIJ Tokyo and co-organized with Global Asia Studies (Institute for Advanced Studies on Asia, University of Tokyo) and the Japan Association of Corporate Executives (Keizai Doyukai), brought together European and Japanese experts on China with backgrounds in business and academia to discuss and weigh diverse perspectives, experiences, and recommendations for a sound China strategy.*

In his opening remarks, DIJ director Franz Waldenberger explained that the outside perception of China’s recent economic development as “the growth engine of the world” has faded. Instead, the Chinese government is now being criticized for using “the country’s economic strength as a leverage for authoritarian rule at home and political influence abroad”. Waldenberger maintained that our

difficulties in finding a suitable strategy for dealing with China are symptomatic of the lack of progress in the field of institution building. He stressed that being open and listening to different answers is the only way of reducing the risk of making mistakes. With this in mind, he welcomed the speakers who offered four perspectives from which the question “how to deal with China” would be explored: from Europe and from Japan as well as from business and from academia.

The first keynote by Hans van Ess (LMU Munich) outlined changes in Chinese-German relations and perceptions from the speaker’s personal perspective of 40 years of dealing with China. During that time, China developed from a “poor Socialist country” to a global power. For most of that time, particularly from the early 1990s onwards, van Ess stressed, the relations could be described as “fantastic”, apart from human rights issues. However, the so-called Jasmine Revolution in 2011 in Northern Africa and Arabic countries constituted a major break for the Chinese government. According to van Ess, China felt threatened by the rebellion and introduced restrictive measures, e.g., to control the internet. As a consequence, political relations between China and the West deteriorated. Van Ess emphasized that he does not think that the ascent of Xi Jinping to power in 2012 was “the major reason for the fact that the relationship between China and the West deteriorated during the second decade of this century.” Instead, he proposed that China’s quick rise to power and emergence as a competitor challenged the West, in particular the US. The massive trade deficit constituted a main obstacle in the way of good relations with the US, whereas German and Chinese industries were more complementary. According to van Ess, the fact that Germany’s politics currently lean towards the US, while Germany’s big enterprises are making more money in China than in the US, has led to “a very awkward situation”: German and European politicians call China a “partner, a competitor, and a systemic rival” but focus on the aspect of rivalry more than on partnership. At the same time, German and European industry is interested to keep the doors open, he explained. From his professional background in higher education, van Ess added that during the period of growing economic exchange between Germany and China, many German students enrolled in Chinese Studies programmes and Germany became the fourth most important foreign country for Chinese students in the West, with currently more than 50.000 Chinese students in Germany. However, the pandemic and the new German coalition government had changed the situation in Germany enormously. For example, the Ministry of Foreign Affairs introduced sharp controls for Chinese students interested in studying at German universities; many are being rejected if they want to study so-called “sensitive subjects” in some sectors of engineering and information sciences, physics or chemistry. Van Ess agreed that there were “good reasons for keeping an eye on research collaborations” but also wondered “whether Germany is not exaggerating a bit”. Germany’s policies were “falling from one extreme to the other” which left him with the feeling that “German politicians do not really know what they are actually doing”. Chinese students and scholars were needed in Germany, as in Japan, because of the demographic changes. “And where else but in China could one find as many competent people right now in this world?”, he asked, pointing out the rise of Chinese universities in all major university ranking systems. Despite the

difficult intellectual climate at Chinese universities, “closing up against China” was not the right answer. Van Ess therefore concluded that it was in our own interest to continue collaboration with China.

The second key note by Mats Lennart Harborn (Traton China Group) focused on political and economic aspects, drawing on the speaker’s three-decades of business experience in China. From a business perspective, Harborn highlighted the “propaganda war” between China and the US and warned that it has led to a “perception gap” between Western media reporting and views held by China experts. He pointed out that the current Chinese leadership has actively pushed for necessary regulative and structural reforms and also emphasized China’s global leadership in innovation. According to Harborn, by looking through the lens of Confucianism the way the Chinese leadership acts becomes easier to understand. “People like me who live in China”, Harborn explained, “see a different reality in China from how things are often portrayed in the West.” To him, it has been vital to tackle the problems created by China’s fast growth following the country’s membership in the WTO since 2001. While there had been huge growth and “hope for the future”, regulation was weak and many problems, including scandals about food, drug, and blood as well as environmental degradation, were not solved effectively by Wen Jiabao’s and Hu Jintao’s leadership. According to Harborn, China in 2010/11 was “almost like a house of cards” and many Chinese were asking themselves what the use of a strong and fast-growing China was if one’s own quality of living was getting worse. Reforms to the Chinese development model only started in 2012 when Xi Jinping and Li Keqiang introduced a programme of structural reform and established “a stronger leadership”, Harborn explained. The new leadership’s reforms rested on two basic principles, according to Harborn, and aimed at moving China from quantitative to qualitative growth. To this end, the two principles: 1) markets are to play a decisive role in resource allocation and 2) all reform measures should be people-centred so that the quality of living of people would improve. To Harborn, both principles are decisive for understanding today’s China and they require “strictly enforced” rules, standards, and regulations. To gain trust and legitimacy for the leadership to push these reforms, Harborn continued, the CCP under Xi Jinping resorted to principles of “Confucian leadership”. As part of a societal contract, the Party must strive to be “a moral example ruling with competence, impartiality, and wisdom” to be able to guide society into the direction defined by the Party. Harborn explained that Xi could be understood as “the symbol of this type of leadership” which included inspection tours and “vivid discussions with a great number of stakeholders in society ranging from academia, think tanks, government officials, media to enterprise”. A vision for China is to “build a beautiful China”, “rejuvenation of the Chinese nation”, and “common prosperity” by poverty alleviation and the reduction of income disparity. Key instruments to achieve these goals are the fight against corruption and the introduction of “Socialist-Confucian values”, he stated. Regarding China’s current economic status, Harborn emphasized the country’s development from being “a copycat” and the “factory floor of the world” to boasting companies of first-class innovation. Based on huge domestic markets and through a “triple matrix collaboration between the government, academia, and industry”, Chinese companies have become global players, some of which are now leading global

markets (e.g., Xiaomi). Harborn's advice to foreign companies that aim at becoming or remaining global players was to "tap into the innovation systems in China" and "to meet Chinese competition in China", the biggest global market. More, not less investment in China is needed, he maintained. Harborn concluded by stating that "we need to engage more" with China also because, as he suggested, a failing China was a bigger risk than a China that is growing stronger.

The moderator of the panel discussion, Tetsushi Takahashi (Nikkei Newspaper), then invited the three Japanese respondents to comment on the two keynotes.

Osamu Mogi (Kikkoman Corporation) agreed that closing doors to China was not a good idea. It was vital to continue the conversation to understand different standpoints. He also agreed that despite political differences and difficulties, the importance of China could not be denied and should be acknowledged. Engaging with China was therefore necessary, also in the hope that China would in turn become a "responsible" global power. He questioned, however, whether the focus on regulation could actually keep up with the economic development of China itself or hamper innovation instead.

Junichiro Ikeda (Mitsui O.S.K. Lines) acknowledged that Japan and Germany were in similar positions vis-à-vis China and that both countries' bilateral relations with China were complicated. He stressed the need to be aware of the inherent risks. However, Ikeda also pointed out differences in Japan's and Germany's relationships with China. Because of Japan's geographical proximity and its shared history with China, China's presence and significance for Japan has always been very strong. Unlike in Germany, for example, China was never a minor field of study or of marginal interest in Japan. For these reasons, Ikeda maintained, Japan cannot simply copy Germany's response to China, which he praised as "more objective" than Japan's. Ikeda also agreed with van Ess and Harborn that we need to acknowledge the high level of Chinese research and education. One conclusion of a recent trip by a Japanese business delegation to China, he explained, was that we should try to recruit among the vast group of talented Chinese graduates.

As the third commentator, Shigeto Sonoda (University of Tokyo) emphasized that Japanese universities can no longer be run without Chinese students. Drawing on experiences from an international research group on risks for East Asian companies in China in 2014 (published as *How to deal with the China Risk*, Tokyo University Press, 2016), Sonoda explained that many researchers at that time were not really aware of any political risks potentially caused by dealing with China, with the exception of Taiwanese scholars. However, this disregard of geopolitical risks had changed after the Russian invasion of Ukraine. Sonoda then presented results from several surveys conducted between 2013 and 2022 on Japanese perceptions of China. According to the surveys, two variants have consistently been important in determining these perceptions: first, whether one sees China's rise as an opportunity or as a threat; and second, whether one sees China's rise as peaceful and legitimate or not. As a general tendency, in

the past decade, there was less reason for Japanese people to see China's rise as peaceful and as an opportunity. However, he admitted, the evaluation of the China risk by the wider public in Japan and those who have first-hand business experience in China may differ.

In his response to the three comments, Mats Harborn agreed to the view that the relation between China and Europe or the outside world is complex. Recognizing this point, each company needs to make its own judgement of the risk level, he argued. He emphasized his belief that China will continue to build a regulatory framework "geared towards sustainability and innovation". According to Harborn, this trend is irreversible. He recognized the Chinese government's efforts to solve issues that foreign companies have been criticizing, including legislation regarding transfer, cybersecurity, and espionage. Harborn also stated that the opinion held by many outsiders that true innovation was not possible in a political system such as the Chinese one, has now been proved incorrect. Instead, he emphasized, there was "impressive innovation" taking place which foreign companies need to take seriously in order to remain competitive, cost efficient, and to have access to markets where new business models dominate.

Commenting on China's political system and Xi Jinping's position, Hans van Ess maintained that Xi was "an exceptional figure" compared to the two previous generations of leaders. He emphasized, however, that the CCP as a party continues to make policy decisions, not Xi single-handedly. Xi himself was in an "awkward position" without a way back; as he rose to power by means of a purge, stepping down would be extremely dangerous for him personally. As a consequence, Xi was forced to stress the centrality of his person. Van Ess rejected comparisons between Xi and other "dictator-like leaders", arguing that the Chinese case was different: leaders were formed by the CCP with Xi being on top but he was still unable to make all the decisions. Harborn agreed and added that to him, Xi as "a figurehead" was part of a Confucian leadership, "a symbol of a collective of very competent people" who are trying to deal with the challenges China is facing, including centrifugal forces.

Based on these remarks about the nature of Xi's leadership, the event's moderator, Tetsushi Takahashi, commented that he felt a considerable perception gap of China between Germany and Japan. He described German views as rather optimistic and invited the Japanese panelists to comment.

Osamu Mogi emphasized that the Chinese anti-espionage law greatly worries all Japanese who are dealing with China. Referring to the detainment without charges of a Japanese national, Mogi requested that the Chinese government improve the transparency of its judicial system. Without transparency, he maintained, only anxiety remained. In addition, he stated that politicians, bureaucrats, and the private sectors should make more efforts to overcome the lack of communication between Japan and China. If the personal exchange could be improved ("It's better to see something once than to hear about it a hundred times"), one could see China more objectively, he concluded.

Junichiro Ikeda agreed to the need to overcome the lack of communication. On a recent trip to China he had learned that in 2023 the number of Japanese parliamentarians visiting China was as low as ten while the number of those who visited Taiwan was 100. This great difference was symbolic of the lack of communication between Japan and China, he stated. Ikeda also expressed his dissatisfaction with the little progress achieved regarding problems with visa regulations and the anti-espionage legislation, and he referred to negative reactions in Chinese social media to a visit by Keidanren to China in January 2024. Ways must be found, he implored, to improve Chinese public sentiment towards Japan.

Tetsushi Takahashi added from his media perspective that Japanese journalists were shocked that, in an unprecedented move, Chinese foreign minister Wang Yi did not take any questions from Japanese journalists at the recent People's Congress in Beijing. The Japanese media felt slighted because of this behavior towards journalists from Japan, he explained.

Shigeto Sonoda explained that not only to the Chinese government but also to the Chinese general public Japan has become less important. In Chinese polls since the 2010s, Japan and the US used to take the top positions as important countries in the Chinese perception. However, in recent years Japan was not even ranked among the top five countries anymore. Sonoda added that Chinese media coverage of Japan has been moving into a hostile direction.

As a possible factor for deteriorating Japanese-Chinese relations and perceptions, Takahashi referred to the Taiwan issue. He stated that Taiwan contingency had now become a realistic issue of concern. He added that because of the geographical proximity, Taiwan was a very important factor for Japan.

Hans van Ess confirmed that a possible conflict over Taiwan was also a major topic of concern in Europe. In this context, de-risking had become a publicly and widely discussed concept in dealing with China. Van Ess maintained that a potential war between China and Taiwan would have much more disastrous consequences for Europe's economy than the current war between Russia and Ukraine. However, he explained, the risks for China itself were "extremely high", too. The CCP would not easily risk its legitimacy, which since 1992 had been built on the promise to provide better living conditions for its people, he stated. Van Ess concluded that given these risks for China, there is a "high probability" that China will not invade Taiwan.

Mats Harborn added an episode from his recent participation in a conference in China where a Chinese general had stated that militarily it was difficult but possible to occupy Taiwan. But the hearts of the Taiwanese could not be "won". Also, there is a high risk of economic sanctions put on China in the case of a Chinese invasion of Taiwan. This would impede the main objective of the Chinese leadership's policies, namely economic growth.

Osamu Mogi stated that even though a pro-independence president was elected recently, most Taiwanese preferred keeping the status quo, according to his impression. As a businessman, he did not wish to comment on the risk of an invasion of Taiwan, but he noted that it is clear that Japan would be affected by a confrontation between China and Taiwan. We will prepare for the worst, but hope for the best, he concluded.

Junichiro Ikeda explained that from his business perspective, in the event of a conflict, it was most important to protect the lives of the employees. He agreed with van Ess' verdict that a military conflict would be catastrophic and the whole business world would be shaken. One important countermeasure, he stated, is to prepare resilience regarding supply chains, that is, not only to rely on China. However, in practice, Ikeda warned this was a difficult step. In some industries, China's share amounts to more than 60%, and naturally it was difficult to replace 60%.

Shigeto Sonoda agreed that it is difficult for companies to prepare countermeasures. Basically, everyone must rely on diplomacy and governments to make sure that the China risk does not escalate, he stated. Sonoda suggested that after the pandemic, communication and collaboration must be intensified again not only between China and Japan but also between different sectors within Japan.

In his closing remarks, Kanetsugu Mike (MUFG) offered his personal thoughts on points related to the presentations and the discussion. First, he suggested including the Chinese national information law into future deliberations on how to deal with China. In his view, the law poses a grave obstacle for cooperation with China in research and development. Second, Mike emphasized the importance of people-to-people exchange at the grassroots level in order to mitigate the anxiety in bilateral relations. He recommended being mindful of the propaganda war and false information. Mike suggested consuming information critically and checking the situation on the ground through intensified people-to-people exchange. He added that it was also important for Japan to add outside perspectives, like that of Europe, to Japan's exchange with China. To this end, one should not only rely on the exchange between so-called "like-minded countries" as partners but understand that in every given country there are "like-minded people", even in countries that are in conflict with each other.