

GERMANY – CHINA RELATIONS UNDER ANGELA MERKEL. THE ROLE OF CHINA IN GERMAN FOREIGN POLICY

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In the 21st century, the global position of China has changed dramatically. China has become a global super power second only to the United States.¹ At the same time, Germany became the regional hegemon in Europe.² The goal of this paper is to evaluate the development of Germany-China relations during Angela Merkel's three terms as chancellor (2005–2017). Angela Merkel is the German chancellor who has paid more visits to China than any of her predecessors, and she visits China more frequently than any other European leader. Chancellor Merkel continues a tradition of maintaining close diplomatic ties between the two countries; her predecessors: Helmut Schmidt, Helmut Kohl and Gerhard Schröder, were actively engaged in development of bilateral relations.³

I argue that Germany-China relations during the three terms of Angela Merkel's chancellorship can be divided into three periods. In the first one, which lasted from 2005 until the outbreak of the global financial crisis, Germany tried to integrate human rights issues into its policy toward China. In the second period, which lasted from the outbreak of the crisis until 2015, China was seen as a market for German exporters and investors offering German companies unlimited growth opportunities. China was seen as an engine of the growth of global economy. But in 2016, the picture changed. Germany-China relations moved into the third period. Chinese companies are expanding in Germany taking over high-tech companies and making it clear to the government that China is not only an opportunity but also a challenge for the German economy. At the same time, the hopes for equal treatment of foreign companies and their local competitors in the Chinese market have not materialized. Furthermore, Chinese foreign policy has been changing fast, and China

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¹ C. Fred Bergsten, *The United States and the World Economy*, Washington DC, Peterson Institute for International Economics, 2005.

² Günther Hellmann, *Zur Neusten Debatte über eine „Neue Deutsche Außenpolitik“*, in "Aus Politik und Zeitgeschichte", 2016, Vol. 66, No. 28–29, pp. 4–12.

³ *China-Germany ties facing new development opportunities: ambassador*, in "China Daily", 28 October 2015.

strives to be perceived as a defender of free trade and globalization, while at the same time building new global and regional institutions. The relations between China and Germany are becoming more complicated and multidimensional.

The paper has the following structure. First, I will discuss the issue of economization of international relations and the consequences of this process for Germany-China relations. In the second part, I will look at the historical background of Germany-China relations. In the third part, I will concentrate on the period 2005–2008, in the fourth one, I will analyse the period 2009–2015, and in the fifth part I will analyse the period 2016–2017.

Foreign policy economization and the role of China in the concepts of German foreign policy

Economization of foreign policy has been one of the most important trends in international relations in the last half-century. It gained prominence with the Détente of the 1970s⁴ and then again with the end of the Cold War. Military spending was cut and governments focused on economic development. This process is observed in both China⁵ and Germany.⁶ Today, the number of diplomats engaged in economic relations, the time spent on the development of these relations as well as the resources at the disposal of the diplomats dealing with economic issues are much higher than during the Cold War.⁷

As Andreas Wilhelm says, foreign policy requires clearly defined goals and a suitable mix of instruments to achieve them. The instruments of foreign policy are as follows: diplomacy, information, propaganda, economic instruments, military instruments and the activities of secret services. Economic instruments are becoming increasingly important and are used to achieve two goals. The first one is to construct the preferred international system, and the second one is to develop favourable bilateral relations.⁸ Foreign policy can be successful only when the country has an appropriate industrial policy, a high level of research and development (R&D) spending, a correctly valued currency, and an active trade policy supporting export.⁹

⁴ Peter J. Katzenstein, *International relations and domestic structures: Foreign economic policies of advanced industrial states*, in “International Organization”, 1976, Vol. 30, No. 1, p. 9.

⁵ Yin hong Shi, *The impact of China’s capitalist transition on foreign policy*, in Christopher A. McNally (ed.), *China’s emergent political economy: capitalism in the dragon’s lair*, London, Routledge, 2007, pp. 209–227.

⁶ Sven S. Kasper, *Systemtheoretische Analyse des Einflusses der deutschen Wirtschaft auf die deutsche Außenpolitik*, Münster, LIT, 2009.

⁷ Henry A. Kissinger, Cyrus Vance, *Bipartisan objectives for American foreign policy*, in “Foreign Affairs”, 1988, Vol. 66, No. 5, pp. 899–921.

⁸ Andreas Wilhelm, *Außenpolitik: Grundlagen, Strukturen und Prozesse*, München, Oldenbourg, 2006, pp. 160–165.

⁹ Hartmut Schumann, *Wirtschaftliche Dimension der Außenpolitik*, in “Zeitschrift für Politik”, 1994, Vol. 41, No. 2, p. 148.

In the current international relations, political and economic aspects are interrelated as never before.¹⁰ Eric Heginbotham and Richard J. Samuels's research on the evolution of political realism shows the importance of economic issues for state power. First, they stress that economic security is equally important as military security. Economic power can easily transform into military power, but the development of a sophisticated industry is a long process. Second, the 'nationality' of companies is important. Third, they argue against the protection of the military industry from market rules and in favour of shifting resources from the military sector to the civilian sectors of economy. Fourth, they consider deindustrialization and economic dependence an equivalent of military attack. They argue that states have two options in the face of an economic challenge. The first one is to offset the economic power of the competitor through faster development of its own economy. The second option is economic band wagoning. The first option is attractive for economically strong states, while the second one is rather chosen by poorer countries lacking sufficient resources for economic development.¹¹

Contemporary Germany-China relations are not encumbered by past conflicts, and the German occupation of Kiao-Chaufor 16 years does not overshadow the current relations. The German Federal Republic (FRG) established diplomatic relations with China only in 1972, when the United States changed its China policy. But in contrast to many other countries of the Western bloc, the FRG had never had diplomatic relations with Taiwan. In the 1970s and the 1980s Germany and the United States considered China a counterbalance to the Soviet Union. It was only with the end of the Cold War and China's unprecedented economic growth that the economic cooperation moved into the foreground of the bilateral relations.¹²

In contrast to many other governments, the German government does not publish any document that would present in a comprehensive overview of the country's foreign policy strategy. To reconstruct it, it's necessary to examine a number of documents published by different ministries. For the analysis of German-Chinese relations, we first need to look into the "Asia Concept", published in 1993. This document indicated the growing importance of the region, in particular China, for German foreign policy. Economic relations became the focus of attention.¹³ In 2002, when the German government published a new "Asia Concept", the main goal

¹⁰ Robert O. Keohane, Joseph S. Nye, *Power and Interdependence: World Politics in Transition*, Boston, Little, Brown and Company, 1977; Robert Gilpin, *The Political Economy of International Relations*, Princeton, Princeton University Press, 1987.

¹¹ Eric Heginbotham, Richard J. Samuels, *Mercantile realism and Japanese foreign policy*, "International Security", 1998, Vol. 22, No. 4, pp. 171–203.

¹² Sebastian Heilmann, *Volksrepublik China*, in Gunther Hellmann, Reinhard Wolf, Siegmund Schmidt (eds.), *Handbuch zur deutschen Außenpolitik*, Wiesbaden, VS Verlag für Sozialwissenschaften, 2007, p. 580.

¹³ *Asien Konzept der Bundesregierung*, Deutscher Bundestag 12. Wahlperiode, Drucksache 12/6151, 25.10.1993.

was to integrate China into the international community. The bilateral relations should concentrate not only on economic cooperation but also on security, human rights and development policy.¹⁴

The “White Paper on German Security Policy and the future of the Bundeswehr” of 2006 indicated only that the economic growth of this region had led to the development of intensive economic ties between Germany and countries of Asia. The authors of the White Paper believed security aspects were gaining importance. It was indicated that Germany needed a long term strategy of partnership with China.¹⁵ According to the “White Paper on German Security Policy and the future of the Bundeswehr” of 2016 ‘the international system is moving towards a multipolar order’ and China is perceived as one of the leading countries.¹⁶

Since the end of the first decade of the 21st century, the political elites of Germany have believed there was a „new quality” in Germany-China relations. On the 40th anniversary of the establishment of Germany-China relations, German Foreign Minister Guido Westerwelle wrote that Germany understood the „historic changes of the last four decades” and the chances that globalization offers. Together with China, Germany „plays in the Champions League of globalization”. He pointed out that Chinese growth changed the world into a multipolar one. Germany welcomed growth in China and in other emerging markets. It is also ready for new partnerships in management of global affairs. Without breaking the old alliances, Germany is ready to develop new partnerships, and it sees China as a crucial partner. He argued in favour of broad-based cooperation including politics, economy, culture, science and civil society.¹⁷

Germany has become the number one partner of China in the European Union (EU), wining against Britain and France¹⁸. Sometimes, Germany and China are even seen as „natural partners”.¹⁹ The economic „symbiosis” of these countries and the absence of any direct conflict of interest have been widely seen as the

¹⁴ Auswärtiges Amt, *Aufgaben der deutschen Außenpolitik Ostasien. Japan, Süd- und Nordkorea, Mongolei, China Einschl. Hongkong und Macau, Taiwan am Beginn des 21. Jahrhunderts*, Berlin 2002.

¹⁵ Bundesministerium der Verteidigung, *Weißbuch 2006 zur Sicherheitspolitik Deutschlands und zur Zukunft der Bundeswehr*, Berlin, 2016, p. 57.

¹⁶ The Federal Government, *White Paper 2016 on German Security Policy and the Future of Bundeswehr*, Berlin, 2016, p. 30.

¹⁷ Guido Westerwelle, *Deutschland und China in der Champions League*, in “Frankfurter Allgemeine Zeitung”, 11.10.2012, p. 10.

¹⁸ Miguel Otero-Iglesias, John Seaman, Mikko Huotari, Alice Ekman, *Introduction: Dissecting and reassembling Europe-China relations*, in Miguel Otero-Iglesias, John Seaman, Mikko Huotari, Alice Ekman (eds.), *Mapping Europe-China Relations A Bottom-Up Approach*, European Think-tank Network on China, 2015, pp. 7–14.

¹⁹ Yu-ru Lian, *Eine „Natürliche Partnerschaftsbeziehung“ zwischen China und Deutschland*, in Michael. Staack (ed.), *Asiens Aufstieg in der Weltpolitik*, Opladen Berlin Toronto, Verlag Barbara Budrich, 2013, pp. 89–106.

foundation of a „special relationship” between them.²⁰ Although the thesis of natural partnership is questionable, the unprecedented rise of ties between them in the 21st century is obvious.²¹ But the Germany-China special relations have a relatively narrow base. Both countries are interested in stability of the international system as well as in openness of the global market for trade and capital flows, which is crucial for them as leading trade powers. Common economic interests are a foundation of strategic partnership. In consequence, the deterioration of economic relations may mean the deterioration of political relations²². In contrast to the best known special relationship between the United States and the United Kingdom, the Germany-China special relationship does not include common values, history or cultural heritage.²³

Germany-China relations – historical background

The FRG established diplomatic relations with China in 1972. But the crucial moment for the intensification of cooperation between the two countries was the beginning of economic reforms in China in the late 1970s. Already in 1978, a trade agreement was signed between the European Communities and China. In the mid-1980s, the FRG and China signed an agreement on the protection of investments and an agreement on avoiding double taxation. The most visible example of the growing economic cooperation was the beginning of automobile production by Volkswagen (joint venture with SAIC) in Shanghai in the mid-1980s.²⁴

Following the suppression of the protests in Tiananmen Square in June 1989, the political relations between Germany and China cooled down. What followed were economic sanctions and deterioration of the image of the Chinese leadership in Western media. But already in 1991/92, most sanctions were lifted. The idea to isolate China proved impracticable. The growing attractiveness of the Chinese market and the openly declared unwillingness of the Chinese elites to discuss human rights issues as well as their opposition towards foreign interference in internal Chinese politics encouraged Western governments (including the German one) to take the human rights issue, including the problem of the Tibet, off the agenda. But in Germany, the Tibet problem remained an important element of the public debate on China, which even led to the 1996 Tibet Resolution of the Bundestag, criticising

²⁰ Hans Kundnani, Jonas Parelló-Plesner, *China and Germany: Why the emerging special relationship matters for Europe*, ECFR Policy Brief, 2012.

²¹ Michael Staack, *Deutsche Außenpolitik unter Stress*, Opladen Berlin Toronto, Verlag Barbara Budrich, 2016, pp. 45–48.

²² Mikko Huotari, *Germany's China policy: No honeymoon forever*, in Miguel Otero-Iglesias, John Seaman, Mikko Huotari, Alice Ekman (eds.), *Mapping Europe-China Relations A Bottom-Up Approach*, European Think-tank Network on China, 2015, pp. 30–35.

²³ Thomas Gutschker, *Zwei Streber*, in “Frankfurter Allgemeine Sonntagszeitung”, 2.9.2012, p. 10.

²⁴ Sebastian Heilmann, *op. cit.*, p. 583.

China. But apart from the resolution, the government of Helmut Kohl and later the government of Gerhard Schröder tried to avoid controversial topics in public exchanges with Chinese officials. Germany's China policy exhibited a very high degree of continuity. Chinese elites perceived Germany as the most influential member of the EU and consequently as a valuable partner as well. From the Chinese perspective, European countries were attractive partners. They could serve as important economic partners, but in contrast to the United States, they did not have any military interests in East Asia.²⁵

Angela Merkel's predecessor, Gerhard Schröder, was willing to influence the direction of Chinese reforms through stronger economic ties. This was the main idea behind the "Change through Trade" strategy.²⁶ In the 1990s, Germany became China's main trade partner in Europe, and in 2002, China became Germany's most important trade partner in Asia. German direct investments in China at that time were still at a relatively low level, but the dynamic has increased since China's accession to the World Trade Organization in 2001. In 2002, Germany became the biggest European investor in China. In the early 21st century, the main goal of the German policy towards China was to secure an export market for German producers and open the Chinese market for German investments. German diplomats were focusing on promoting the economic interests of Germany. Trade chambers – or representations of German industry associations – were opened in Beijing, Shanghai, Guangzhou and Hong Kong. What is more, the CEOs of the biggest German companies were present (VW, Siemens, Daimler, ThyssenKrupp, Bayer and BASF) during the official diplomatic contacts between China and Germany, the most visible role being played by the CEO of Siemens, Heinrich von Pierer, who was simultaneously the chairman of the Asia-Pacific Division of the Committee of the German Economy (Asien-Pazifik-Ausschuss der Deutschen Wirtschaft).²⁷ The Chinese economic model effectively supports foreign direct investments in China, transfer of technology and managerial skills.²⁸ An important element of the economic relations between Germany and China, in the 1980s, and 1990s was German development aid. As the construction of underground systems in Shanghai and Guangzhou with German financial and technical support suggest, one of its goals was to support German industry.²⁹ Germany-China relations in this period can be described as free from political tensions. Differences were played down and economic interests dominated.

²⁵ *Ibidem*, p. 581.

²⁶ Christoph Schnellbach, Joyce Man, *Germany and China: Embracing a Different Kind of Partnership?*, CAP Working Paper, 2015, pp. 2–8.

²⁷ Sebastian Heilmann, *op. cit.*, pp. 583–584.

²⁸ Joshua Cooper Ramo, *The Beijing consensus*, London, Foreign Policy Centre, 2004.

²⁹ Sebastian Heilmann, *op. cit.*, pp. 583–584.

2005–2008

In the early phase of Merkel's term as chancellor, the relations between China and Germany were characterised by tensions. The main reason behind this was her meeting with the spiritual and political leader of the Tibetan people, the Dalai Lama, in 2007³⁰. She was determined to increase the role of human rights in the German foreign policy. This was the first meeting of the German chancellor with a Tibetan leader. It led to a short freeze in bilateral relations between China and Germany. China even suggested that France might become its key partner in the EU. But as the French president, Nicolas Sarkozy, also met with the Dalai Lama, the threat lost its credibility. Still, the threat achieved its goal. Merkel's policy changed and she has avoided any symbolic policy that would annoy her Chinese partners ever since. Domestically, she was criticised for her meeting with the Dalai Lama by foreign minister Frank-Walter Steinmeier, who argued that this was against German economic interests.³¹ Chancellor Merkel also didn't participate in the opening ceremony of the Olympic Games in Beijing in 2008. She was a decisive force behind upholding the EU's embargo on arms sales to China.³²

An important consequence of this diplomatic conflict was Germany's reassurance that it meant to stick to its One-China policy, as expressed in the letter of Foreign Minister Frank-Walter Steinmeier to the Chinese government. A crucial new element was the clarification of the term „One-China“. It was the first time Germany explicitly recognised Taiwan and Tibet as parts of Chinese territory.³³

In 2008, when the Dalai Lama visited Germany again, only the Minister of Economic Cooperation and Development Heidemarie Wieczorek-Zeul met with him. The reason was that the German elites were convinced that a repeated deterioration of the relations with China was not in the German interest.³⁴ As an empirical study conducted by Andreas Fuchs and Nils-Hendrik Klannshows, meetings between national leaders on the highest level and the Dalai Lama have a negative, although only short-term effect on the given country's exports to China.³⁵

³⁰ Judy Dempsey, *Despite censure from Beijing, Merkel meets with Dalai Lama in Berlin*, in "The New York Times", 23.9.2007, see: <http://www.nytimes.com/2007/09/23/world/europe/23iht-berlin.4.7609899.html> (accessed on: 30.05.2017).

³¹ Wulf Schmiese, *Die entspannende Wirkung der Krise*, in "Frankfurter Allgemeine Zeitung", 29.1.2009, p. 2.

³² Alberto Cunha, *Paving The New Silk Road: The Evolution of the Sino-German Strategic Partnership*, Observatorio Politico, Working Paper, 2017, No. 67, p. 10

³³ *Chinas Regierung lässt jubeln. Diplomatischer Sieg über Deutschland*, in "Frankfurter Allgemeine Zeitung", 26.8.2008, p. 6.

³⁴ *A Slap at the Dalai Lama*, in "The New York Times", 22.5.2008, p. A30.

³⁵ Andreas Fuchs, Nils-Hendrik Klann, *Paying a visit: The Dalai Lama effect on international trade*, in "Journal of International Economics", 2013, Vol. 91, Issue 1, pp. 164–177.

Merkel's first term as the chancellor meant a „normative turn”, understood as „a move to a more value-based foreign policy, in contrast to that under Schröder, which was realist and business-based”³⁶. In the area of economy, the only topic that was constantly present in Germany-China discussions was the insufficient protection of intellectual property rights in China.³⁷

2009-2015

When the economic situation of Germany deteriorated in the face of the global financial crisis and the Euro zone crisis, the German government concentrated on building economic ties with China. The financial crisis showed the resistance of the Chinese economy against external shocks. From 2009 to 2014, German exports to China doubled, driven by China's demand for German machines and high quality consumer goods. The increased exports to China helped stabilise the German economy but also made it dependent on the Chinese market.³⁸ The biggest success was achieved by German machinery and automobile producers. In 2015, when the Chinese economy slowed down and German exports decreased, the problem of the German economy's dependence was already being discussed. As Hans Kundnani has put it at the German Marshall Fund: „I think there is a growing perception among German business people that they are too exposed to China”³⁹.

But China proved to be not only a fast growing market for foreign suppliers of goods but also a quickly developing superpower interested in playing an important role in global governance. Placing emphasis on the economy meant intensive development of trade and permanent discussions about foreign suppliers limited access to the Chinese market and insufficient protection of intellectual property rights in China. At that time, the flow of investment was one-way, from Germany to China⁴⁰, and the German economy minister, Sigmar Gabriel, invited Chinese investors to Germany.⁴¹

³⁶ Christoph Schnellbach, Joyce Man, *op. cit.*, p. 8.

³⁷ Andreas Lorenz, *Merkel's Chinese Balancing Act*, in “Spiegel Online”, 23.5.2006, see: <http://www.spiegel.de/international/spiegel/german-chancellor-visits-beijing-merkel-s-chinese-balancing-act-a-417763.html> (accessed on: 30.05.2017).

³⁸ The Dangers of Germany's Dependence on China, in “Spiegel Online”, 27.8.2010, see: <http://www.spiegel.de/international/world/beijing-s-high-tech-ambitions-the-dangers-of-germany-s-dependence-on-china-a-713478.html> (accessed on: 30.05.2017).

³⁹ See: Paul Carrel, *Once a source of envy, Germany's China exports turn into a risk*, Reuters, 26.8.2015, <http://www.reuters.com/article/us-china-economy-germany-analysis-idUSKCN0QV1MP20150826> (accessed on: 30.05.2017).

⁴⁰ Felix Heiduk, *Conflicting Images? Germany and the Rise of China*, in “German Politics”, 2014, Vol. 23, Issues 1–2, pp. 118–133.

⁴¹ Zhang Chunyan, *Germany seeking a strong partnership*, in “China Daily”, 10.10.2014.

Table 1

German trade relations with China (in billion USD)

| The Year | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|----------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Export | 21.23 | 27.48 | 29.9 | 34.07 | 37.27 | 53.79 | 64.86 | 66.75 | 66.91 | 74.37 | 71.28 | 76.09 |
| Import | 40.85 | 49.96 | 56.42 | 60.83 | 56.71 | 77.27 | 79,53 | 78.53 | 74.54 | 79.83 | 91.93 | 93.82 |

Source: <https://de.statista.com/statistik/daten/studie/73860/umfrage/deutschland-import--exporthandel-mit-china-seit-2006/> (accessed on: 30.05.2017).

Since 2008, we have been witnessing growing intensification of the political exchange between Germany and China. Already in 2004, the two countries signed an agreement about „strategic partnership in global responsibility”. Since 2011, the governments have been holding consultations. The two countries cooperate in almost 60 dialogue formats, such as „rule of law and human rights dialogue” and „security policy dialogue”. Most of them are high-level ministerial formats between secretaries of state or between managers of state authorities. In March 2014, Chancellor Merkel and President Xi Jinping raised the cooperation to the level of „comprehensive strategic partnership”⁴².

As Cui Hongjian, Director of European Studies at the China Institute of International Studies, observed, the „Sino-German consultations are the only inter-government dialogue at the highest level in China’s foreign relations”, and its intensity is greater than what is usually seen between great powers.⁴³ It is interesting to point out that in contrast to China, Germany works in similar formats with six other countries.

Germany was willing to develop a strong political partnership with China. Michael Staack argues that close cooperation between states having different political systems is possible when they decide to develop an intensive dialogue and concentrate on common interest.⁴⁴ He confirms the argument of Christoph Heusgen (head of foreign and security policy department in the office of chancellor Merkel) about the special relationship between both countries. Heusgen argued, in 2012, that relations between Germany and China were based on economic similarities. First, both

⁴² see:http://www.auswaertiges-amt.de/DE/Aussenpolitik/Laender/Laenderinfos/China/Bilateral_node.html (accessed on:30.05.2017). For more on strategic partnerships in Chinese foreign policy see: FengZhongping, Huang Jing, *China’s strategic partnership diplomacy: engaging with a changing world*, ESP Working Paper, 2014, No. 8.

⁴³ Cui Hongjian, *China-German relations*, in “China Daily”, 14.11.2013.

⁴⁴ Michael Staack, *Deutsche Außenpolitik unter Stress*, p. 46.

countries have export-oriented economies. Second, their social stability is based on economic well-being, and finally, in the previous three decades, close economic ties or even interdependencies developed between the two countries. German exporters need the Chinese market to secure high growth rates, and Chinese companies need German machines for modernisation and development.⁴⁵

Each country also maintains strong business representations in the partner country. The Association of German Chambers of Industry and Commerce is represented in China by The Delegations of German Industry and Commerce in Beijing, Shanghai and Guangzhou. They concentrate on the promotion of bilateral trade and investment between the two countries.⁴⁶ On the other hand, in 2014, China opened the first chamber of commerce in Europe. Its head quarter is in Berlin.⁴⁷

Germany has become the most attractive partner for China in the EU for four reasons. First, Germany is the most powerful Member State, and its role within the EU is growing. Second, the German economy offers access to technologies badly needed in China. Third, German economy is becoming dependent on China. Fourth, Germany is reluctant towards the use of military force in international relations, which is important for China, who has serious border conflicts with its neighbours.⁴⁸

2016–2017

As regards Germany-China relations, the period 2016–2017 is the most controversial during Angela Merkel's term as chancellor. Germany-China relations have once again become more complicated. At the heart of this challenge is economy, which was previously seen as a solid foundation of the relationship. There are three groups of divergences. The first one is the continued limited access to the Chinese market for German enterprises and the expansion of Chinese enterprises in Germany. The second issue is the question of the EU granting market economy status to China. The third issue is the role of Germany and China in shaping the global economy and their vision regarding the future of the global economy.

Exports to China were a blessing for the German economy before⁴⁹ and after the outbreak of the 2008 global financial crisis. German producers in sectors such as engineering, chemicals and especially the automobile industry were among those who benefited the most from the expansion of the Chinese economy.

⁴⁵ Thomas Gutschker, *op. cit.*, p. 10.

⁴⁶ see: <http://china.ahk.de/about-us/delegation-of-german-industry-commerce/> (accessed on: 30.05.2017).

⁴⁷ see: http://www.auswaertiges-amt.de/DE/Aussenpolitik/Laender/Laenderinfos/China/Bilateral_node.html#doc334538bodyText3 (accessed on: 30.05.2017).

⁴⁸ Alberto Cunha, *op. cit.*, p. 13.

⁴⁹ Sabine Stephan, Leonhard Redle, *Going East: Deutschland setzt auf Handel mit China und den Ländern Mittel- und Osteuropas*, IMK Report, 2010, No. 54.

The complementary nature of the two economies, with China export in labour intensive goods and Germany exporting capital intensive goods, also reduced the potential for trade conflicts. But after years of double digit growth rates based cost advantage, the new government of President Xi Jinping tries to transform the Chinese economy. The growth rate should stabilise at 7.5 per cent, consumption should play a more important role in Chinese economy, export and investments should contribute less to GDP growth in the future, and Chinese producers should gain a greater market share in high-tech industries. If successful, China could become a new competitor for Germany.

German companies have heavily invested in China in the last decades, transferring technology and contributing to development of Chinese industry. Especially in automobile sector, the size of German investments in China (VW, Daimler, BMW) could limit future German exports, which will be substituted by local Chinese production. Chinese producers also plan to expand to the foreign market. Other sectors where the interests of German and Chinese economies may clash are the rail and aerospace industry. The expansion of Chinese solar panel producers and the almost total collapse of this sector in Germany have already shown that the time when both economies were complementary is over. Today, they compete in an increasing number of sectors, and Chinese companies are winning.⁵⁰ This competition might intensify with the rising number of Chinese companies buying German producers of industrial goods and this way gaining access to advanced technologies. What is more, the Chinese government pursues a strategy of establishing an autonomous knowledge and technology base for the development of the economy.⁵¹ The restricted access of foreign companies to public procurements in China, preferences for local (in many cases state-owned) companies and the unequal rules for investment (German enterprises require a local partner for their investments in China) are often named as the main problems in the bilateral relations between the two countries.⁵² China refuses to adopt the principle of reciprocity or symmetry in its trade and investment policies. It strongly supports local enterprises in regaining their market share in China from foreign competitors. This economic policy poses a threat for the suppliers of high-tech products. German companies are especially in danger because in the last decade, their strategies assumed China would be neglecting other fast rising markets.⁵³

⁵⁰ *Deutschland verliert Exportanteile an China*, in “Frankfurter Allgemeine Zeitung”, 6.6.2013, p. 10.

⁵¹ Georg Erber, *German-Chinese economic relations: Opportunities and risks for Germany*, in “DIW Economic Bulletin”, 2014, Vol. 4, Issue 2, pp. 8–13.

⁵² Rudolf Scharping, *Crucial bilateral relationship*, in “China Daily”, 10.10.2014; Carsten Germis, Rüdiger Köhn, Johannes Pennekamp, Klaus Smolka, *Chinesische Schwäche belastet Deutschland*, Frankfurter Allgemeine Zeitung, 9.1.2016, p. 17.

⁵³ Martin Gornig, *Eine Krise in China trifft Deutschland ins Mark*, in “DIW Wochenbericht”, 2016, No. 2.

The dissatisfaction of German politicians with the Chinese economic policy was unambiguously expressed by the German ambassador in China, in December 2016. On the occasion of the economic conference of the Central Committee of the Communist Party of China and State Council, Ambassador Michael Claus stated that it was difficult for German officials to encourage German enterprises to invest in China because they feared that they were only ‘useful instruments’ supplying technology and that they would later be discarded.⁵⁴ These remarks coincided with a report published by the influential German research institute Merics, which argued in favour of new instruments that would protect the German technology enterprises against being taken over by Chinese state-owned enterprises. In this context, the phrase ‘sell-out’ of German enterprises to Chinese investors gained popularity. In November 2016, during his visit in Beijing the minister of economy, Sigmar Gabriel, upset Chinese officials by talking about Chinese companies shopping in the German technology sector. One of his ideas to limit this development is the „investment scanner”, that is a procedure to control investment from non-EU countries. The opposition against Chinese takeovers of leading German enterprises started with the takeover of the robot producer KUKA by the Chinese company Midea. The high-profile takeover of Aixtron by another Chinese company was blocked by the United States administration. Investments in engineering companies should help China realise its „China 2025” vision. By 2025, the Chinese industry should achieve a significant market share in some high-tech economy sectors, and by 2049, it should transform China into an „Economic-Superpower”. Chinese enterprises should dominate sectors such as aerospace, trains and electric cars. This vision would be easier to realise with the help of foreign technology than without it. German companies, being global leaders in engineering, are an especially attractive target for Chinese investors. Merics sees it as a challenge for Germany, and also the European Union Chamber of Commerce in China is concerned with the activity of Chinese investors.⁵⁵

Despite China’s declarations of support for free trade, German political elites seem to be losing faith in them. In early 2017, the German foreign minister, Sigmar Gabriel (former minister of economy) said that it would be too optimistic to expect that China is going to open its market in the near future; Germany still believes, however, that open markets are the goal of both sides.⁵⁶

⁵⁴ *Deutschland droht China*, in “Frankfurter Allgemeine Zeitung”, 15.12.2016, p. 19.

⁵⁵ *Chinas Einkaufstour wird immer schneller*, in “Frankfurter Allgemeine Zeitung”, 25.10.2016, p. 22; Thilo Hanemann, Mikko Huotari, *Eine Neue Ära Chinesischen Kapitals Chinesische Direktinvestitionen in Deutschland und Europa*, Berlin, Merics & Rhodium Group, 2015; Cora Jungbluth, *Chance und Herausforderung Chinesische Direktinvestitionen in Deutschland*, Gütersloh, Bertelsmann Stiftung, 2016.

⁵⁶ *To expect China to open market overnight not realistic: German FM*, in “China Daily”, 27.4.2017.

The ninth consultations between the governments of the two states, held in June 2016, showed the growing differences between them. They were seen as the „most difficult” ones under Chancellor Merkel. The list of problems includes: the market economy status (MES) of the Chinese economy, Chinese steel exports, the South China Sea dispute as well as the role of the rule of law, the latter being the subject of her speech at Nanjing University in Beijing. One of the consequences of these consultations was an agreement on Germany-China cooperation in economic and development assistance in third countries. Chancellor Merkel described it as „a qualitative new approach”. Merkel highlighted that Germany was interested in stronger bilateral cooperation also in Mali, where China increased its contributions to the UN peacekeeping mission. Despite these important issues, the visit focused as usual on economic cooperation. The key problem is the question of China’s MES. When China joined WTO in 2001, the other members promised that it would be granted MES within 15 years. But the United States, the EU and Japan refuse it, arguing that China has failed to fulfil its obligations. The Chinese prime minister, Li Keqiang, expressed the hope that the EU will „keep its promise”. MES has a double meaning for China. First, it is a matter of prestige. Second, it would constrict the European Commission in its antidumping procedures against Chinese exporters.⁵⁷ The Chinese administration believes that MES should be granted „automatically”, but it acknowledges that there are many arguments against such an interpretation. For China, the United States and the EU are crucial in the ongoing negotiations. China understands that it would be more difficult to convince the American administration. That is why China is focusing its lobbying efforts on the EU and especially on Germany. The Chinese government perceives Germany as a crucial partner in MES negotiations.⁵⁸

The German government seems to be divided on this issue. Whereas Chancellor Merkel takes a low-profile approach, ready to accept China’s demands and unwilling to vex the Chinese government, the ministry of economy argues that China can receive the MES only when it behaves like a market economy. The ministry of economy shows understanding for the worries of the steel industry, aluminium producers, the chemical industry and the machinery industry, which consider themselves in danger. The German position is in this issue unclear. Although formally the decision will be taken on the EU level, it is clear that the German point of view will be crucial.⁵⁹

⁵⁷ See: <http://thediplomat.com/2016/06/merkels-visit-to-china-a-balancing-act/> (accessed on: 30.05.2017).

⁵⁸ Agatha Kratz, *China’s Market Economy Status: The all-out push for recognition*, ECFR, 2016.

⁵⁹ Sven Böll, Frank Dohmen, Alexander Jung, Christoph Pauly, Michael Sauga, *Ein bisschen Marktwirtschaft*, in “Der Spiegel”, 2016, No. 23, pp. 66–69.

The election of Donald Trump as President of the United States, who is a convinced adherent of the „America first” policy, could be a very important moment for enhancing Germany-China relations. An entirely different vision of the world was presented by President Xi Jinping at the World Economic Forum in Davos in 2017. He argued in favour of globalization, free trade, free flow of investments and win-win cooperation. He presented himself as an advocate of reforming the global governance system.⁶⁰ China wishes to have greater influence on international relations, to take a leading role in global affairs and reshape the global order.⁶¹ The vision presented by the Chinese leader is very close to the goals of German foreign policy.⁶² However, as the previous analysis shows, China’s commitment to free trade does not actually mean that it is ready to open its market and drop all barriers. As François Godement argues, „China has been a free-rider on trade liberalisation and globalisation, with low levels of voluntary contributions to multilateral efforts”. He describes the Chinese engagement in international affairs as „cautious engagement”. „China relies on a stable global order to preserve the networks that support global free trade. It therefore has a vested interest in protecting that order”.⁶³

Germany has become an important partner in two major Chinese geo-economic projects. The first one is the Asian Infrastructure Investment Bank and the second one is the „One Belt and One Road” (OBOR) initiative, which includes a rail connection between the Chinese city of Chongqing and Duisburg, in the west of Germany. The significance of Germany for OBOR is proven by the visit of President Xi Jinping in Duisburg during his visit to Germany in 2014.⁶⁴ But the German government is cautious about the „One Belt and One Road” initiative, which is the most important Chinese foreign policy initiative of this decade. The summit of the countries participating in OBOR, held in Beijing in 2017, was attended by the leaders of Russia (Vladimir Putin), Turkey (Recep Tayyip Erdogan) and the Great Britain (Theresa May), among others, but Chancellor Merkel was not there; Germany was instead represented by the minister of economy (Brigitte Zypries). For German leadership, the current plans are still too imprecise.⁶⁵

⁶⁰ *President Xi’s speech to Davos in full*, 17.1.2017, see: <https://www.weforum.org/agenda/2017/01/full-text-of-xi-jinping-keynote-at-the-world-economic-forum> (accessed on: 30.05.2017).

⁶¹ Petra Kolonko, *Chinesischer Schnellzug gegen amerikanisches Karussell*, in “Frankfurter Allgemeine Zeitung”, 24.2.2017, p. 3.

⁶² *Eine neue Achse?*, in “Frankfurter Allgemeine Zeitung”, 18.3.2017, p. 10.

⁶³ François Godement, *Expanded Ambitions, Shrinking Achievements: How China Sees the Global Order*, ECFR Policy Brief 2017.

⁶⁴ Alberto Cunha, *op. cit.*, pp. 5–7.

⁶⁵ Hendrik Ankenbrand, *Der Welthandel soll über Chinas Seidenstraße rollen*, in “Frankfurter Allgemeine Zeitung”, 13.5.2017, see: <http://www.faz.net/aktuell/wirtschaft/wirtschaftspolitik/mamm-uprojekt-der-welthandel-soll-ueber-chinas-seidenstrasse-rollen-15012993.html>. (accessed on: 30.05.2017).

Conclusions

The period 2005–2017 in Germany-China relations was marked by economic cooperation. The interest of Chancellor Merkel in including human rights issues in Germany-China relations failed. The global financial crisis and then the euro crisis pushed the German government to support the development of economic relations.

The Chinese market proved to be a great opportunity for German companies. In particular, when the demand in Europe collapsed, the Chinese market was growing, securing export orders for German companies and employment for workers in Germany. German companies have also heavily invested in China, transferring newest technologies. With its modern industrial sector and without geopolitical interests in East Asia, Germany was an ideal partner for China in its attempt to realise the „Chinese dream”. „Special relations” based on economic symbiosis seemed to emerge between both countries. But the sustainable growth and modernisation of the Chinese economy proved to be an increasingly greater challenge for Germany. Today, Germany perceives the Chinese economy as competitor rather than as an export market. The economic ties between the two countries have grown, but the Chinese government seems to be ready to keep them only as long as they are favourable for China. The remarks made by the German ambassador in Beijing, in December 2016, as well as the remarks of Minister Gabriel made one month earlier clearly indicate that the German government had realised that the special relationship is coming to the end.

This experience makes the German government also sceptical about the Chinese vision of international relations and undecided about granting China MES. It is aware that the division of benefits may go against German interests. Chancellor Merkel’s government also prefers to continue traditional alliances over establishing new ones.

The Germany-China special relations seem to be as short lived as their economic symbiosis. The countries are entering a new phase, where economic disputes will be part of their bilateral relations.

GERMANY-CHINA RELATIONS UNDER ANGELA MERKEL. THE ROLE OF CHINA IN GERMAN FOREIGN POLICY

(Abstract)

The goal of this paper is to evaluate the development of Germany-China relations during Angela Merkel’s three terms as chancellor (2005–2017). I argue that Germany-China

relations during the three terms of Angela Merkel's chancellorship can be divided into three periods. In the first one, which lasted from 2005 until the outbreak of the global financial crisis, Germany tried to integrate human rights issues into its policy toward China. In the second period, which lasted from the outbreak of the crisis until 2015, China was seen as a market for German exporters and investors offering German companies unlimited growth opportunities. But in 2016, the picture changed. Germany-China relations moved into the third period. Chinese companies are expanding in Germany, taking over high-tech companies and making it clear to the government that China is not only an opportunity but also a challenge for the German economy. At the same time, the hopes for equal treatment of foreign companies and their local competitors in the Chinese market have not materialized. Furthermore, Chinese foreign policy has been changing fast, and China strives to be perceived as a defender of free trade and globalization, while at the same time building new global and regional institutions. The relations between China and Germany evolve towards becoming more complicated and multidimensional.

Keywords: China, Germany, special relationship, economy, dependence.