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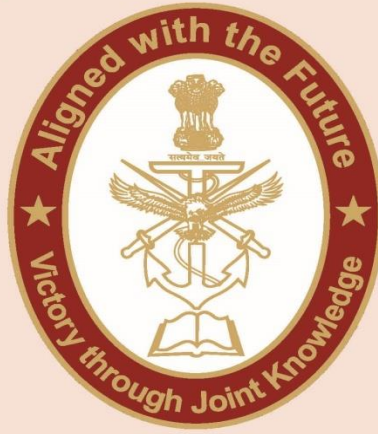
WEB ARTICLE

# **SCHOLZ RESTORES PRIMACY TO GERMANY'S ECONOMIC RELATIONSHIP WITH CHINA**

**AMBASSADOR YOGESH GUPTA  
IFS (RETD)**

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TO GERMANY'S ECONOMIC  
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**Yogesh Gupta** is a former Indian Ambassador and Secretary, Ministry of External Affairs.

Accompanied by a high-level business delegation, the German Chancellor Olaf Scholz made an 11-hour visit to China on 4 November. The timing of his visit attracted some eyebrows as it meant endorsing the outcome of China's 20<sup>th</sup> Party Congress (i.e. authoritarian rule of the Chinese President, Xi Jinping who got an unprecedented third term) by the current chair of G-7, most prominent country in Europe and a driver of the EU integration. Scholz chose this time deliberately to get exclusive attention of Xi before the latter met other world leaders at the G-20 Summit in Bali from November 15-16, 2022.

The objective of Scholz's visit was to have a direct meeting with Xi to reinforce trade and investment cooperation with China. Foreign trade contributed 81.11% to Germany's GDP in 2020 and 89.39% in 2021; its exports accounted for 43.4% of GDP in 2020 and 47.5% in 2021. Germany's exports to China increased from \$ 6.58 bn in 1995 to \$ 1379

bn in 2021. But in the first 9 months of 2022, Germany's bilateral trade with China grew by only 0.9% with its exports to China declining by 6.1% while imports increased by 8.6%. Germany now faces a growing trade deficit with China.

There was a feeling among certain industry and other sections in Germany that its exports to China had suffered as it was seen as supporting USA's hardline stance against China on human rights, Hongkong and blocking of several Chinese investments in Germany. Former Chancellor Angela Merkel was careful and had pushed back calls from the security agencies to ban all Chinese investments in the German infrastructure sector. Merkel had opposed the bifurcation of the global politics into the pro-USA and pro-China camps.

Before proceeding to Germany, Scholz approved sale of 24.9% stake in one of Hamburg's port terminals, ignoring objections from his Foreign Minister and others, to China's state-owned company Cosco Shipping. Wherever the Chinese companies are shareholders, they use those ports more often in their supply chains in transporting various goods from China. With this stake sale, Hamburg with its strong rail connections to the European hinterland, would get even more closely twined with China's supply chains in Europe.

Scholz told Xi that Germany was in favour of globalisation, opposed bloc confrontation and decoupling. It was ready for deeper trade and economic engagement with China, more investments between the two countries and strengthening China's relations with Europe. He said that a multipolar world was needed which would allow the role and influence of emerging powers. Scholz took up fair trade, violations of human rights and

maintenance of status quo on Taiwan by China but these issues were ignored in the Chinese readout.

Scholz's views were music to Xi's ears as these were in sharp contrast to those of the USA, which has been trying to align its European allies on the human rights, investment, technology and supply chains issues pertaining to China. Xi warmly welcomed Scholz saying that he was the first European leader to visit him after the Party Congress in October, 2022. China supported the strategic autonomy of Europe (in contrast to a Europe toeing the American line) and considered her as its comprehensive strategic partner.

Xi said that nuclear wars must not be fought and all efforts must be made to prevent a nuclear crisis in Eurasia. Xi assured Scholz that China would work with Europe and Germany to step up cooperation for solutions to global issues. Also, that he would ensure "a highly stable consistent environment" for German companies in China and expressed hope for "continued technology flows and investment from Germany". China is hoping that Scholz's visit would encourage other European leaders to consider the China relationship in a more pragmatic and balanced manner.

Germany has a very significant trade, investment and technology cooperation with China. According to one source, trade with China supports a million jobs directly and another million indirectly. Over 30% of global sales of major German companies like Volkswagen, Daimler and BMW and over 20% for others like Covestro and Adidas are to China. German industrial giants are investing more there as they have aligned themselves with long-term Chinese priorities such as technological innovation, industry up gradation and decarbonisation. These companies

have considerable weight in Germany's political economy and are pushing the new government in favour of greater engagement with China.

Two important coalition partners in Scholz's government, i.e. the Greens and Free Democrats are not in favour of Germany's overdependence on China and want Chancellor Scholz to take a tougher line on China's human rights violations, militarisation of the South China Seas and Taiwan issue. In pursuance of these concerns, German leaders have undertaken visits to Japan, South Korea and would be visiting Singapore and Vietnam after the G-20 summit thus diversifying ties beyond China. They met PM Modi in June 2022. However, for the present, Germany cannot reduce its reliance on China as sanctions on Russia, the Ukraine war, high inflation and energy prices have deeply hurt the German economy.

Chancellor Scholz has reverted to Angela Merkel's policy of handling ties with China "with a sense of proportion and pragmatism". After Scholz's visit, Germany has blocked the sale of two German chip plants, Elmos and ERS Electronic to the Chinese investors on grounds of national security. Scholz government will have a difficult task in managing its China policy in view of significant differences with its domestic, EU allies and security partner, the USA. It will try its best to manage their concerns without imposing a blanket ban on the Chinese investments and alienating China. Germany is unlikely to follow Washington's tough approach on the human rights, Hongkong, Taiwan and other contentious issues. Xi Jinping would be smiling to have deepened the fissures in the EU unity and weakened the transatlantic alliance as China's rivalry with the USA intensifies further.

### **CERTIFICATE**

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