

Merkel draws a positive balance sheet on her eighth visit to China

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3 November 2015

Last weekend, German chancellor Angela Merkel drew a positive balance sheet from her latest trip to China. She told reporters she was confident of further development in economic and political cooperation between the countries and expressed the hope that China would join “constructively in the resolution of international conflicts.”

It was Merkel’s eighth visit to Beijing in her 10 years as chancellor. As in each previous visit, she was accompanied by a large entourage of leading businessmen. As before, economic agreements worth some €20 billion were concluded, including contracts for the delivery of 130 Airbus aircraft and a cooperation agreement for the production of 100 rescue helicopters.

Nonetheless, Merkel’s latest trip took place under significantly changed conditions. First, the effects of declining Chinese economic growth on the world economy have become more severe. This summer, the devaluation of Chinese currency and the creation of a new mechanism for fixing the exchange rate shocked international financial markets.

Markets throughout Asia plunged, and some currencies fell to their lowest level since the Asian financial crisis of 1997-1998. In Europe and in the US, stock markets reacted with temporary but significant losses. Financial experts said the devaluation of the Renminbi (also known as the Yuan) indicates that the state of the Chinese economy is worse than previously believed.

At the beginning of October, the World Trade Organisation (WTO) lowered its prognosis for global trade growth in 2015 from 3.3 to 2.8 percent, warning that the decline of economic growth in China and the resulting fall in the price of raw materials would strengthen global recessionary trends.

Sebastian Heilmann of the Mercator Institute for China Studies in Berlin warned that the transformation of the Chinese economy from one of investment to a consumer-driven growth model has consequences for German industry. “German capital goods and automobiles” would probably “no longer reach those earlier levels of growing demand,” wrote Heilmann.

At the same time, the change in the Chinese economy is causing the “Chinese demand for access to international finance and foreign exchange markets and service related know-how” to greatly increase. In these areas, however, Great Britain is “far better situated than Germany.” That suggests “a strategic shift in the European-Chinese relationship—away from Berlin and toward London.”

Just a few days before Merkel’s Beijing visit, Chinese president Xi Jinping was received with ceremony at Buckingham Palace. There, he pledged that London would be chosen as the first financial centre outside of China to open a trading platform for state bonds in Renminbi.

In return, the British government offered China extensive investment opportunities and virtually unlimited access to the British economy, including strategically important sectors such as the nuclear industry, worth more than £100 billion. China, meanwhile, serves as Great Britain’s second-largest export market, second to Germany and ahead of the US. Exports to China have more than doubled in the last five years.

The third and most important factor in the strong impact on the German-Chinese relationship is the growing economic and military pressure placed on China by the US “Pivot to Asia.” The day before Merkel’s trip, a US warship penetrated the 12-mile zone surrounding an island in the South China Sea

claimed by China and in the process organised a dangerous military provocation.

Before that, the US government secured a trade and investment agreement (Trans Pacific Partnership, TPP) between the US, Japan and other Asian countries with the primary goal of isolating China and weakening its influence in the region.

Under the growing economic and military pressure from the US, the Chinese government turned decisively towards Europe. It is not an accident that in the space of just a few days, top Chinese politicians and governmental and economic representatives from Great Britain, Germany and France entered into negotiations and finalised comprehensive financial agreements.

On Sunday, Merkel reported that she was very pleased with her unusually warm reception in China. The Chinese leadership apparently went to great lengths to signal to the German chancellor that the growing partnership between Beijing and London did not imply any disregard for China's partnership with Germany.

All three leading party and state functionaries, President Xi, Premier Li Keqiang and Zhang Dejiang, chairman of the Standing Committee of the National People's Congress, welcomed Merkel on the first day of her trip even though a session of the Central Committee of the Chinese Communist Party was meeting at the same time.

On Thursday evening, President Xi hosted a state dinner for Merkel. It was noted with appreciation in Berlin that during the occasion to greet the chancellor, there was even a 21-gun salute, though protocol only provides for 19 shots for heads of government.

Merkel was even granted a special honour. Premier Li invited her to join him on a visit to Hefei, his city of birth. He wanted to show her the Huangshan, "one of China's most beautiful mountains." Li said that in doing so he wanted to demonstrate how close the relationship between Germany and China had become and how much credit Merkel deserved for it. Li praised Merkel for having already been to China eight times and was pleased that she would return in the next year for the joint government consultations and the G-20 summit to be held in Hangzhou. That would be Merkel's 10th trip, more than any other head of government.

At a business conference, Premier Li pushed for a

further strengthening of Chinese-German collaboration on the modernisation and digitalisation of industry. China would be adopting Germany's future strategy, "Industry 4.0," as an example to follow and would link it with its own path of development, "Industry 2025." He proposed the establishment of a new and close working agency at government level.

Germany is still China's most important European trade partner. Germany accounts for 30 percent of China's trade volume with the European Union (EU). This year the trade volume is set to exceed last year's amount of €154 billion. According to government figures, 5,000 German businesses are active in China. By way of comparison, in India there are 1,600. Despite the cooperation with the London stock exchange, an agreement was reached during Merkel's visit for a closer collaboration between exchange centres in Frankfurt and Shanghai.

In reinforcing its economic relationship with Europe, China is responding to growing pressure from America. After his goodbyes with Merkel, the Chinese premier travelled to South Korea for a government visit. There he revived the trilateral summit with Japanese prime minister Abe and South Korean president Park, which had been put on ice for more than three years. Beijing wants to negotiate a free trade zone with its neighbors, as a counterweight to the TPP just agreed to by the US.

For the same reason, the Beijing leadership is also urging Merkel to support a free trade zone between China and the EU. London has already signaled its approval. The chancellor, however, held back during her trip, knowing that such an agreement would intensify the conflict with the US government. In parting, she said diplomatically that she first wanted to conclude an investment agreement between the EU and China in 2016. That would be the precondition for an EU-China free trade agreement.



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