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China's Plans to Strengthen Relations with Germany

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China endeavours to strengthen its relations with Germany by taking advantage of the strain in transatlantic relations. In China's view, Germany would be the PRC's main partner in the promotion of free trade, climate protection, and a multipolar world order. To foster the relationship, China is willing to minimize disputes with Germany and improve ties, such as by speeding up certification of German political foundations. Strengthening of China–Germany relations requires increased access to the Chinese market for German companies, which is only possible in a longer perspective. Poland may see some benefit from increased exports to Germany and indirectly to China.

China (PRC) has clearly noticed an opportunity in the growing gap between the U.S. and Germany. The PRC needs a strong partner that does not perceive it as a threat to its own interests and global order. That is why it has intensified political contacts with Germany using the G20 rotational presidency—the Chinese held it in 2016 and Germany does now. It also has created other opportunities for meetings: G20 finance ministers in February 2017, Chinese Foreign Minister Wang Yi's visit to Germany in April 2017, and German Vice Chancellor and Foreign Minister Sigmar Gabriel's visit to China and Chinese Prime Minister Li Keqiang's visit to Germany, both in May this year. PRC Chairman Xi Jinping will attend the G20 Summit (7-8 July) in Hamburg after a state visit to Germany (4-6 July). China's diplomatic offensive also has been supported with gestures of favour: it delayed until 2019 the implementation of an 8% quota on the sales of electric cars (German manufacturers lead that sector of the Chinese market) and confirmation of German political foundations' right to legally act in PRC according to new regulations introduced in China from 1 January.

Factors Supporting the Chinese Calculations. The implementation of the Chinese plans is deeply founded in China-Germany economic relations. Trade volume reached €170 billion in 2016 and China became Germany's top trade partner (overtaking the U.S., which slipped to third with €165 billion in trade). This change was mainly caused by growing Chinese imports (€24 billion more relative to 2015). That has also created a German trade deficit in China's favour of more than €17 billion (in 2015, Germany held a €3 billion surplus). Important, too, is that both sides reject protectionism. In May this year, during his visit to China, Foreign Minister Gabriel supported the idea of EU-China cooperation on free trade.

Germany's geographical position and intensity of trade volume creates a situation in which it is a high-priority partner for China's Belt and Road initiative (BRI). The European country is both a destination and a logistics hub for Chinese goods reaching Europe via sea routes, mostly through Hamburg (every third container comes from China). Germany is also where cargo trains coming from PRC complete their journey, such as the Chongqing-Duisburg line. The cooperation has a clear financial aspect. In May this year, Deutsche Bank (where 10% of the shares are owned by Chinese fund HNA) signed an agreement with the China Development Bank worth €2.7 billion to help finance BRI projects.

The Chinese calculations are also supported by positive political relations. During Chancellor Angela Merkel's 12 years in office, she has paid nine official visits to China, visiting 11 provinces. In 2011, at the suggestion of China, an Intergovernmental Committee was created led by the heads of government, unlike similar panels with other countries. Chinese PM Li has personal contact with Chancellor Merkel, such as in 2014 when he accompanied her to Hefei province (which is his home province) underlining that they are "good friends". After President Donald Trump's announcement of the U.S. withdrawal from the Paris climate agreement, cooperation between China and Germany in that field will also increase.

Obstacles. One of the most serious obstacles to implementing the Chinese plans is, according to Germany, the lack of openness of the Chinese market to German entities, which conflicts with the rule of reciprocity. More than 5,000 German companies operate now in China but they do not have access to the ICT sector, cannot bid for procurement deals, and face restrictions under the country's cybersecurity law (binding from 1 June). Meanwhile, the EU market is open to Chinese investors in line with the rules of free competition.

Together with the allegations over reciprocity have come controversies about Chinese investment in Germany. In 2016, total input reached €11 billion, or about 31% of all Chinese investment in the EU. A critical moment was the 2016 sale of KUKA, a robotics manufacturer. The German government rated the sale as negative and has started to look more closely into such transactions using a national law clause that enables a block on the sale of more than 25% of the shares of a company considered critical infrastructure. Then, in February 2017, Germany, Italy, and France reported to the EU Commission an initiative to broaden the possibility to block investments in civilian sectors at the EU level.

The implementation of China's plans also has been hindered by the marginal number of gestures towards the German economy. China delayed the obligation to have at least 8% of car sales be non-gasoline types (motivated by environmental concerns, it also increases exporter costs). The decision, however, has not been approved at the ministerial level. Also, Chinese declarations about reducing investment barriers in China (a negative list approach or opening the financial sector) have been limited.

Other obstacles are political. German diplomats in China frequently call attention to human rights violations. During her visits to China, Merkel often meets with non-government figures, such as independent lawyers. Chinese leaders are often asked by German politicians about political prisoners. The Chinese side rhetorically condemns such pressure but in practice tolerates it. Another example was the visit of former German President Joachim Gauck in March 2016, which mostly focused on freedoms and liberties but took place without serious difficulties from the Chinese side. Germany is especially focused on the rule of law as it pertains to German NGOs operating in China, but also to firm and business entities. Chinese gestures of goodwill towards Germany, such as fixing the legal basis of the confirmation of German political foundations in a new foreign NGO law, are in reality quite limited, and are frequently decided in practice by Chinese clerks and lower officials.

Conclusions. China's plans to strengthen relations with Germany will likely be successful only when combined with true concessions in the PRC's economy. That means broader access by German (and EU) companies to the Chinese market. This is one of the most important issues in EU-China relations, but rapid implementation of concessions is improbable, especially before the coming CPC Congress in the autumn. The possible opening does not match the nationalistic rhetoric of the Chinese government, and the majority of Chinese state-owned companies are not ready for real competition. Only in 2018, after Xi starts his second term as chairman, should a partial liberalization of the Chinese market for German companies be possible. Formally, it should include EU companies, but it can be constructed to favour sectors where German firms have advantages over their European counterparts (e.g., automobiles).

China in its foreign policy groups its partners according to certain spheres of deepened interest. The focus on Germany will influence the Chinese perception of cooperation with other EU partners through the lens of their relations with Germany. This can result in the perception by China that actions by other countries that appear to undermine Germany's position within the EU reduces their ability to influence the decision process within the EU-28 and renders good contacts with such states less in the PRC's interests.

The strengthening of China-German relations is an opportunity for Poland to increase exports to Germany and indirectly to China. This would come as part of supply chains involving companies from Poland and their German counterparts that produce goods that are then sold to China. It also makes China-German investment through BRI in Poland more probable under the Deutsche Bank-China Development Bank agreement and infrastructure projects developed under the EU-China Connectivity Platform mechanism, binding the Belt and Road Initiative with the European Investment Plan (EPI).