

German chancellor Angela Merkel visits China

Johannes Stern
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German chancellor Angela Merkel visited China on February 2-3, in her fifth trip there during her tenure. Merkel gave a speech in Beijing at the Chinese Academy of Social Sciences and met Chinese prime minister Wen Jiabao and President Hu Jintao. On Friday, they travelled to the southern Chinese industrial and commercial city of Guangzhou, often referred to as the “factory of the world.”

Merkel was accompanied by a high-level business delegation, including Volkswagen head Martin Winterkorn, Siemens CEO Peter Löscher, and Kurt Bock, head of the world’s biggest chemicals company, BASF.

The trip reflects growing economic and political ties between Germany and the People’s Republic of China.

Trade between the two countries has developed rapidly in recent years, and China is of growing importance for the German economy. According to the Ifo Institute, China was Germany’s fourth largest export market in 2011, behind France, the Netherlands and the United States. This year, China is expected to advance to second place. In 2010, China was still in seventh place. The total German-Chinese trade volume in 2011 was €145 billion.

The fastest growing markets for German goods in China are areas such as chemicals, automotive and industrial equipment, and machinery. The German car industry makes a large proportion of its profits in the Far East, and China is already the largest single market for the Volkswagen Group. In 2011, VW sales to China increased by 18 percent, BMW sales by as much as 38 percent.

Other German companies are also expanding heavily in China. Camera manufacturer Leica plans to develop a third of its sales market in China by 2015. BASF is investing billions into old and new factories in China,

including a research centre in Shanghai. A survey by the German Chamber of Commerce found that half of all German companies active in China planned to increase their investments there.

The German and Chinese economies are becoming increasingly intertwined. When one leaves out Taiwan and Hong Kong, Germany is China’s fourth largest trading partner.

In the first half of 2010, German exports to China amounted to €30 billion, while imports amounted to €34 billion. Germany is thus by far China’s most important trading partner inside the EU, exporting almost as much to China as all 26 other EU countries combined. France is in second place, with exports of nearly €7 billion in the first half of 2010.

In addition to closer economic ties, there is also ever-closer political cooperation between the two countries. Last year saw the first joint Sino-German government consultations. Germany had formerly conducted such high-level relationships with non-European government leaders and ministers only with such states as Israel and India.

In addition to maintaining economic relations, Merkel also raised other themes such as the European debt crisis, the state of the global economy, and international political issues. The talks also covered bilateral relations, recent developments in North Korea, the conflict in Syria, and Iran’s nuclear programme. The seventh EU-China summit is due to be held in Beijing at the end of the month, and Merkel’s trip was regarded as a possibility for Germany and China to discuss key issues in advance.

While information about the content of the discussions was limited, Wen Jiabao did announce at a press conference with Merkel last Thursday that China is

considering providing Europe with financial support to assist its debt crisis. China holds the world's largest stock of foreign exchange reserves (US\$3.18 trillion), and the EU has long hoped that China would provide part of these funds to bail out Europe.

China has held back so far, however, and it is suspected that the Chinese side is making its own demands in return. A commentary in the *China Daily* last Thursday raised the possibility that the EU could eliminate legal barriers to Chinese exports. Another proposal is the removal of the EU arms embargo on China, in force since the Tiananmen Square massacre of 1989.

Commentators believe that China would be willing to participate in euro rescue scenarios if the EU states guarantee China collateral for all investments it makes in the continent. The government in Berlin, however, has indicated that it is unwilling to be guarantor for the debts of other EU countries.

At the press conference, Jiabao declared that "the key to managing the debt crisis was efforts made by Europe itself". He called for "painful decisions". Given the critical situation of the world economy, overcoming the European debt crisis was an "urgent task". He pointed out that the EU is the world's largest economy and China's largest trading partner. It was not just "about the fate of Europe", but rather, "the rest of the world".

Chinese demands for uncompromising austerity measures in Europe are in line with Merkel's policy. The German government is a driving force behind the social havoc in Europe, aiming to enforce the demands of international financial markets at the expense of the working class.

The *Süddeutsche Zeitung* commented that Beijing "realised who had imposed the fiscal pact for more budgetary discipline", and that Merkel could "travel home quite happily in the knowledge that she is a confidant of China".

The German press reacted with frustration to the news that China would not immediately free up billions to rescue the euro. China wants to "take advantage of the weakness of many euro countries in order to buy up choice parts of industry that it could never acquire in normal times", the *Süddeutsche Zeitung* fumed.

Since the outbreak of the financial crisis, China has

massively increased its investments in Europe, purchasing the port of Athens and planning to take over Portugal's largest energy company, Energias de Portugal.

Domestic political factors also play a role in China's calculations. A Chinese worker earns on average only one tenth of the German wage. The rapid economic growth of the world's second largest economy (9.2 percent in 2011) has benefited only a small elite at the top of society, and social conflicts are breaking out across the country.

Media reports suggest that Merkel also used her visit to convince China to increase pressure on Iran and support a resolution against Syria in the UN Security Council. In response to the "Arab Spring," the US, in alliance with other Western states, is seeking to bring the region under its direct control and forcibly install pro-Western governments in all Arab countries. The US objective is to curb Iran's influence in the region, and preparations for war against the country are already well advanced.

China has close trade relations with Iran, and more than a fifth of Iran's oil exports go to China. Trade between the two countries grew by 55 percent in 2011. The war preparations against Syria and Iran are also part of a long-term U.S. strategy of encircling China.

In the period after the Second World War, Germany was an unconditional ally of the US. The rapid development of Sino-German relations, however, leaves Germany in a dilemma. Germany refused to support the last two US-led wars against Iraq and Libya, lining up instead with China and Russia.

Recently, German foreign minister Guido Westerwelle criticised China for vetoing the UN Security Council against Syria, along with Russia. He called China's stance a "big mistake". More broadly, however, Berlin fervently hopes it does not have to choose sides in a confrontation with Iran between Washington and Beijing.



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