German chancellor visits China

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On Thursday, the German chancellor, Angela Merkel, flew to China for two days of talks with the Chinese leadership. At the center of the talks were appeals from the German side for financial support by China to prevent a collapse of the euro zone.

The trip was also used to cement the growing trade and business links between the two countries. Merkel's visit was her sixth trip to China since she took over as head of government and her second this year. Indicating the significance of the visit, the chancellor was accompanied by no fewer than seven ministers, two state secretaries and 150 leading German businessmen traveling in three aircraft.

After meeting the German chancellor, the Chinese premier, Wen Jiabao, expressed his concerns in the ongoing euro crisis: "The European debt crisis has continued to worsen, giving rise to serious concerns in the international community. Frankly speaking, I am also worried."

The main worry of the Chinese leadership is that the growing trend toward recession in Europe is increasingly affecting the Chinese economy. China's export growth has slumped dramatically in recent months primarily due to declining demand from Europe. Chinese exports of electronic goods to Italy fell 43 percent in July compared to a year earlier, while its sales to Germany fell by 11 percent.

The extent of the collapse in Chinese exports is reflected in the Shanghai composite stock, which is currently approaching the 2000 mark—its lowest level since the Lehman Brothers crisis. The purpose of the latest German mission was to play on Chinese fears of a decline in European markets in order to encourage Beijing to increase its investments in Europe, in particular by buying up Spanish and Italian government bonds.

Wen declared his readiness to provide financial support for Europe but made no concrete commitment. At the same time, while expressing his preparedness to assist Europe, Wen laid down conditions. Significantly, the Chinese premier lined up with the policy advocated by Berlin—the implementation of strict fiscal policies and austerity measures in those countries that have been subjected to European Union (EU) bailouts. According to Wen, resolving the euro zone crisis depends on "whether Greece, Spain, Italy and other countries have the determination for reform. Resolving the European debt problem requires fiscal tightening and finding balance within individual economies."

Wen went on to declare that this balance should be struck between fiscal discipline and economic growth. Based on the Chinese model, references to "growth" invariably mean the types of super-exploitation of workers developed in China's own special economic zones.

While the crisis of the euro zone dominated the agenda of the talks, German businessmen were busy in the background finalising a new round of deals with their Chinese partners.

Germany is by far China's most important trade partner in the EU. Germany supplies nearly half of all European exports to China and imports around a quarter of all Chinese goods to the EU. Trade between the two countries is also accelerating rapidly and totaled US$169 billion in 2011. This represents an 18.9 percent increase compared to 2010.

The German chancellor's main excursion during her trip was to an assembly plant of the European plane maker Airbus in Tianjin city, where the Chinese side signed a deal for the purchase of 50 new Airbus A320s worth US$3.5 billion. Tianjin is the only Airbus production site outside of Europe.

Additional Sino-German contracts for a further US$2.5 billion were sealed during the two days, with 13 joint state agreements.

Reflecting the importance of the trade ties between the two countries, Merkel refused to intervene on behalf of the German solar industry, which has loudly complained of unfair competition from Chinese competitors. A number of leading Germany-based solar energy companies have either filed for bankruptcy or closed down this year.

Following talks with the Chinese leadership, Merkel declared she would not back proposals from the European Commission to impose sanctions on China because of its alleged “dumping price” practices in the solar energy sector. A solution should be reached through discussions, the chancellor stressed. Merkel’s non-confrontational stance is also at odds with the US government, which imposed punitive import tariffs on solar equipment from China this year.

This week’s trip by Merkel to China is an integral part of an increasingly aggressive foreign policy pursued by Germany. The current significance of the German government for Beijing was summed up by a leading member of the European Council for Foreign Relations. According to a representative of the think tank: “The Chinese want to hear what’s going on with the euro crisis from the horse’s mouth—they view Merkel as the one with the purse. It is a watershed moment for German diplomacy.”

The German business and political elite are intent on exploiting this “watershed moment”.

European trade remains vital for German industry—around 60 percent of German exports still go to EU countries—but the rapid growth of its Chinese business and finance links enables Berlin to use China as an economic counterweight to enforce its policies of fiscal restraint and harsh austerity across Europe.

The German Foreign Ministry is also well aware of the aggressive policy adopted by the US towards China. The German government is unable and unwilling to adopt a confrontational course with Washington. Berlin is prepared, however, to exploit the differences between the US and China to carve out its own increasingly independent foreign policy

In Beijing, Merkel was expected to appeal to the Chinese premier behind closed doors to join the campaign against Syria, where German military and intelligence forces are playing a key role behind the scenes in backing the Western-backed rebel forces.

At the same time, Beijing’s pursuit of what a number of commentators describe as its “special relationship” with Germany is not based on altruism. China will drop Germany like a brick when its own economic interests are threatened. Chinese premier Wen made no concrete proposals to prop up ailing euro zone countries, and China has its own increasing economic woes.

Beijing faces a decline in the value of its own currency as its economic performance stalls. On that basis, according to the investment bank Morgan Stanley, there is no guarantee that China will invest in Europe, noting that “the risk for Europe is that China could become a net seller of European bonds if forced to run down reserves to shore up the yuan.”