Growing tensions in Chinese-German relations

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This week Germany's Minister for Economic Affairs and Energy Sigmar Gabriel (SPD–Social Democratic Party) is spending several days in China, where he is holding talks with senior government officials. He is accompanied by a high-profile business delegation from 60 large- and medium-sized enterprises. Unlike many previous trips to China by Gabriel and Chancellor Angela Merkel (CDU–Christian Democratic Union), the current visit is overshadowed by fierce tensions. The almost obligatory signing of major economic projects is not on the agenda.

The immediate cause of the tension is Berlin's intervention against the acquisition of several German companies by Chinese businesses.

This past summer, Gabriel and European Commissioner for Digital Economy and Society Günther Oettinger, a German politician from the CDU, attempted to prevent the purchase of industrial robot manufacturer KUKA by the Chinese Midea Group by encouraging German and European companies to take over KUKA. This effort failed because Midea, which had originally offered €4.5 billion [US$5.01 billion], had bought up 95 percent of KUKA shares.

Last week Gabriel rescinded approval for the already agreed sale of German semiconductor equipment maker Aixtron, valued at €670 million, to China's Fujian Grand Chip Investment Fund (FGC). According to press reports, he was responding to an intervention by the US ambassador to Germany, John B. Emerson, who presented a confidential paper to German government officials, according to which Aixtron products could be used in the Chinese nuclear programme.

The announced takeover of the Munich-based manufacturer of lighting products and semiconductors, Osram Light, worth €6 billion, by San'an Optoelectronics, another Chinese company, also met resistance from the German economic affairs ministry. The former light bulb manufacturer Osram is now considered a high-tech corporation, which possesses numerous international patents.

The Chinese government responded to Berlin's intervention by summoning the German ambassador immediately before Gabriel's visit, and handing him an official protest note. In it, Beijing complained of the non-approval of Chinese investments due to American pressure.

Gabriel dismissed the protest, saying key German technologies must be better protected in future. It had to be clear "that Germany and Europe will create instruments for the future, in order to protect security-related technologies, where this is necessary", the minister wrote in a commentary for the daily *Die Welt*. Foreign investors remain welcome, he said, but the government would not allow "a state-controlled business to undertake technology acquisitions combined with expanding geopolitical power", Gabriel blustered.

Chancellor Merkel agreed with her economics minister. Via government spokesman Steffen Seibert, she let it be known that German interests would prevail in matters of security. In addition, German investors were being disadvantaged in China, she claimed, which was unacceptable. Equality of opportunities must exist in Chinese-German economic relations.

This sharp tone toward the Chinese government is part of an increasingly aggressive German foreign policy. At every opportunity, representatives of the government emphasize that Germany, now more than ever, is involved in all regions of the world and must defend its own economic and geo-strategic interests more confidently.

At the heart of this is growing alienation from its traditional ally, the US. The political crisis in Washington, which has taken on unprecedented form during the presidential campaign, has led ruling circles in Germany to develop new foreign policy strategies. An electoral victory for Donald Trump with his "America-first" policy is seen by most German observers as the worst possible scenario. But they also expect more aggressive war policies against Russia and China, which take no account of German interests, in the event of a Hillary Clinton victory.

Therefore, they are increasingly turning to Russia and China. For this reason, economic affairs minister Gabriel travelled to Moscow in late September, before his visit to China, and agreed closer cooperation with Russian President Vladimir Putin to reduce economic sanctions gradually. At the start of October, Gabriel was then a guest in Tehran and opened a German-Iranian business forum. On this occasion, he specifically praised the Iranian government for offering dialogue with Germany on the rule of law. He stressed that cooperation between Berlin and Tehran had improved, despite known differences.

But in its cooperation with Russia and China, Berlin insists it set the tone. The recent statements by Oettinger, who in a speech to business leaders called the Chinese "slit-eyes” and “sly dogs”, are expressions of this imperialist arrogance.

Germany has cultivated close and good relations with China for years. Berlin has distanced itself from President Barack Obama’s “pivot to Asia”—the military encirclement of China using a ring of allied states. Instead, Germany has been the only European country to hold regular joint meetings with the Chinese government.

Economic relations have developed rapidly. Germany has traditionally exported machinery, cars and other high-tech products to China and imported electronics, textiles and other mass products. In 2015, China, with a trade volume of €163 billion, was Germany’s largest trading partner outside the European Union. Not only for Volkswagen, but for many of the 5,000 German companies operating in China, the market there is of vital importance. The “rise of the People’s Republic to the economic powerhouse of the world was a major cause of stability and growth of the German economy in recent years”, observes the *Süddeutsche Zeitung*.

But the growth of economic relations has not improved political relationships between Berlin and Beijing. Under conditions of global economic stagnation, China is increasingly perceived in Germany as an economic rival. The Chinese economy has evolved in recent years from an extended workbench of German and international corporations and a huge market, into a business competitor that makes billion-euro investments in technological development.

Chinese investments in foreign technology companies, promoted by the government in Beijing, have triggered panic in German business and government circles. Although they have not yet reached the level of European and American investment in China, they are growing rapidly.

According to recent figures from the Chinese Ministry of Commerce, China’s foreign investment in the past year reached more than $140 billion, around a quarter more than the previous year. It involved a “new era of Chinese capital”, researchers at the Mercator Institute for China Studies in Berlin assert. Each week, new investment projects were being announced.

“Even today, the People’s Republic is one of the three largest foreign investors worldwide. Nevertheless, that was just the beginning”, writes *Die Zeit* in a background article. China’s President Xi Jinping has announced foreign investments amounting to $1.3 trillion over the next 10 years.

According to the German government, Chinese companies bought into 37 German firms in the first six months of this year alone. Chinese companies have invested more in Germany in this period, €9.7 billion, than in the past 15 years combined. German-Chinese economic relations are changing at a rapid pace. Both countries act less and less as partners and increasingly as competitors.

The double standard displayed by the German government was shown by Gabriel’s protest against the plans of the Chinese government to introduce an 8 percent electric car quota by 2018 to mitigate the terrible smog in major Chinese cities. German auto companies, which lag far behind in the development of electric cars, saw this as a disadvantage. Industry Minister Miao Wei finally calmed his German colleagues, but nothing was decided.

The impact of this growing economic rivalry between the two countries is now evident in the steel industry.

A few decades ago, China produced a fraction of the world’s steel. In 2015, this reached 50 percent. Given the slowdown in economic growth in China, demand has decreased. According to European Union estimates, China now has an overcapacity of 350 million tonnes, which is more than twice as many as the entire EU produces in a year.

China’s attempt to export some of its surplus has led to a slump in steel prices by up to 40 percent. This spring, China announced the elimination of 500,000 jobs in the steel industry and a drastic reduction in capacity.

Nevertheless, the European steel corporations, with the support of the trade unions, demanded high punitive tariffs be imposed against China, as are already applied in the US. But even then, the chairman of the World Steel Association, Wolfgang Eder, assumes that the European steel industry must be reduced by half in the next 15 years. With 330,000 employees working in more than 500 steel plants, this would amount to a massive cut in jobs.

The German government is responding to growing competition with China as it has to all the problems in recent years: with sharp attacks on the wages and living conditions of the working class at home, with the establishment of authoritarian forms of rule and with the revival of German militarism. Under capitalist conditions—i.e., the dominance of private ownership and the nation-state—it is impossible to bring the enormous potential of global productive forces and the social interests of humanity into harmony.