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Germany and China: Embracing a Different Kind of Partnership?

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CHRISTOPH SCHNELLBACH and JOYCE MAN

Abstract

This article explores the multifaceted relationship between Germany and China since the beginning of Gerhard Schröder's "Change through Trade" policy in 1998. The authors argue that German policy towards China has been dominated by economic interests throughout all governments despite a short backlash in bilateral relations at the beginning of Angela Merkel's term in office. In recent years, there have been efforts to extend cooperation to other fields like security and environmental issues. Both Germany and China increasingly consider a strategic partnership within mutual interest. However, the conflict in Ukraine serves as a litmus test which could reveal major differences to key aspects of international relations, such as sovereignty, democratic self-determination and multilateralism.

I. Introduction

China is still a giant on the move, even in an increasingly volatile world. However, the Tianjin explosions and the Chinese stock market crash in 2015, to name just two recent examples, exposed the vulnerability of an unprecedented economic growth over the last four decades. With a GDP of \$9.5 trillion it was the second largest economy worldwide in 2013. Generating a growth rate of 7.7 per cent in the same year it was one of the main drivers of global economy. Hence, China also took the title of "export world champion" away from Germany (Gareis, 2014). China's economic and political rise also brings along a new quality of responsibility within international politics. China's importance in building up a financial architecture in the G20 system cannot be underestimated. Also, as one of the five veto-powers in the UN Security Council, China plays a crucial role in world affairs. This article explores German-Sino relations from a German (and European) viewpoint. What were the main policies of Germany towards its strategic partner in the Far East? And vice versa, what were Chinese expectations of the Europeans? Germany and China are both economic powers with a shared international responsibility in many international fields, from security to environmental issues. Outlining policies from 1998-2014, we trace back the main factors that shaped both countries relationship during vast changes in the international landscape.

II. The Schröder Years from 1998-2005 ‘Change through Trade’ (Wandel durch Handel)

Gerhard Schröder became the first German chancellor in a centre-left coalition government including the Social Democrats and the Greens. SPD leader Schröder’s policies stood in the tradition of a centrist "Third Way" between socialism and capitalism. In retrospect however, Schröder endorsed many facets of liberal capitalism: his “Agenda 2010” policy was associated with significant downsizing of the welfare state, cuts in social security and drastic reform of the labour markets. In foreign policy, Schröder continued the pro-European policy of Germany as a central power (“Mittelmacht”) in Europe with cautious but sustainable involvement in international relations. His foreign minister, Joschka Fischer, was a prominent figure of the Green party which initially derived from the peace movement in the 1970s and 1980s in Germany. The Green party as the minor coalition partner had to overcome a variety of internal struggles in the forthcoming years, which were coined by a shift of Germany from a recipient of security to a major contributor to stability in Europe.

At the end of the 1990s, the German government was still facing the costs of unification while remaining at the helm of European integration. Germany was the one of the major forces behind the Economic and Monetary Union and the EU-enlargement to Eastern Europe. After the creation of the eurozone in 1999, the German economy became more and more dependent on exports – increasingly to Asia and above all China. Two-thirds of GDP growth in the 2000s has come from exports and today nearly half of GDP comes from exports (Kundnani/Parello-Plesner, 2012, 2).

The Federal Republic of Germany always used economic rather than military means to achieve its foreign-policy goals, sometimes depicted as checkbook diplomacy (“Scheckbuchdiplomatie”). In the global arena, Germany began to take more responsibility from the early 1990s, developing from a reluctant to an assertive power, acting on a wide range of international issues and security hotspots from Kosovo to Afghanistan. The Kosovo-crisis not only became a test for the cohesion of the government but also for German-Sino relations: during his visit to China in spring 1999, Schröder apologized on behalf of the EU for the accidental NATO-bombing of the Chinese embassy in Belgrade.

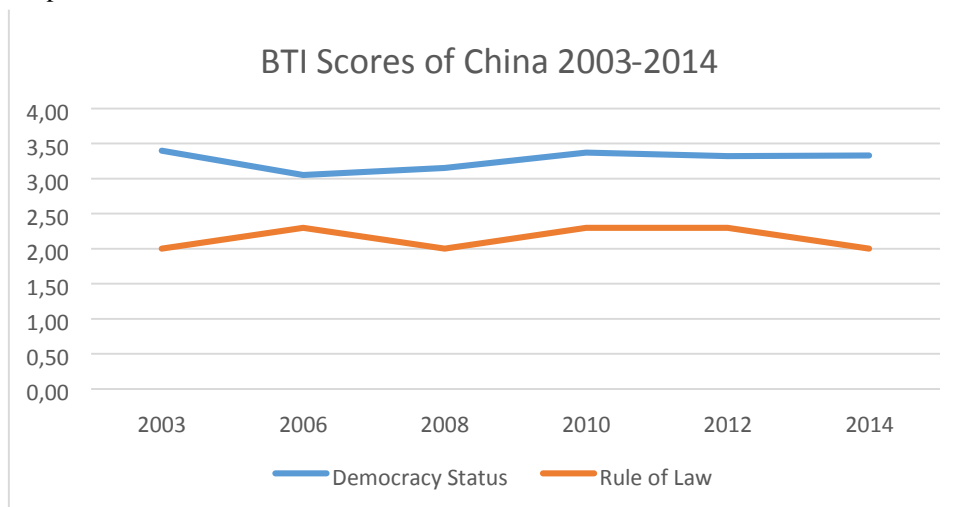
The NATO intervention in former Yugoslavia turned out to be an eye-opener for European security and revealed the European institutions’ lack of capability to act. In the aftermath, the EU developed its own policy on security and defence amid increasing tensions with the US foreign policy. The US-led mission in Iraq in 2003 widened the gap between the EU and US on

foreign policy issues. The Schröder government was promoting “effective multilateralism” in international relations and within the EU framework, including especially the closest partner France. American foreign policy – on the other hand – was focussing on “coalitions of the willing” to react to post 9/11 security threats.

China Policy of the Schröder Governments

The Federal Republic of Germany and the People’s Republic of China established diplomatic relations in the year 1972. Economic relations were gradually improving as China became Germany’s most important economic partner in Asia and Germany China’s leading trading partner in Europe throughout the years. Like all other EU partners, Germany has adhered to a One-China policy from the very beginning of bilateral relations. In the German government, the Chancellery mainly was in charge of China relations, Schröder visited China at least once a year during his incumbency, foreign minister Joschka Fischer visited China first in 2000, two years after entry into office. There have been significant human rights divisions between the SPD and the Greens, also with regard to China (Guo, 2012, 106-112). The first change in human rights policy occurred with Sino-German dialogue on the rule of law: this initiative dates back to the agreement reached in November 1999 by Schröder and former Chinese Prime Minister Zhu Rongji, who shared a very good personal relationship (Heberer/Senz, 2010, 677). The dialogue could be seen as a compromise between the coalition partners: it was designed to offer a long-term approach to developing the rule of law and implementing human rights in China, replacing one-sided criticism with mutual cooperation (Bai, 2013, 213). German human rights diplomacy feeds into judicial reform dialogue through symposia, projects to promote cooperation in the legal sphere, and exchange of experts. This initiative aimed at establishing a soft and incremental approach towards sensitive legal and societal questions in China. However, the success of this dialogue is hard to evaluate, at least from a Western point of view. Against initial expectations, the dialogue did not bring along concrete results or measurable improvements throughout the years (See graph 1). In the wider context, the limited success of the human rights dialogue could also be seen in that the EU has failed to convince China to ratify the International Covenant on Civil and Political Rights (ICCPR).

Graph 1: Bertelsmann Transformation Index on China



From 1998 to 2005, Germany's China policy was consistently strengthening bilateral relations through creating win-win-situations in geopolitical, economic and bilateral relations with great potential for cooperation. At least since Schröder's chancellorship, Germany's approach to China has been based on the idea that the best way to improve the relationship is through trade – "Wandel durch Handel", or "Change through Trade". Leading German politicians, particularly Social Democrats such as Schröder himself and Frank-Walter Steinmeier, tend to emphasise cooperation instead of confrontation with China. As foreign minister, Steinmeier proposed a "community of responsibility" ("Verantwortungsgemeinschaft") with the idea of including China as a responsible stakeholder (Kundnani/Parello-Plesner, 2012, 3).

Germany considered China as an important factor in a multipolar world and China saw Germany as the leading power in the EU. In fact, German-China trade volume tripled between 1998 and 2005 (Guo, 2012, 90-91) enabling bilateral relations to flourish over the years of the SPD-led government. In general, Schröder's seven years in office have been portrayed very positively by Chinese scholars (Guo, 2012, 9). On the other hand, his policies were perceived critically in Germany, especially from human rights activists and significant parts of the German media (Kundnani/Parello-Plesner, 2012, 4).

Germany, the EU and China between National and European Interests

German China policy cannot be dealt with outside the EU framework. Regarding the institutional underpinnings, the European Community (EC) and China have a long history of cooperation, dating back in the 1970s: political dialogue started already in 1975 and was

formalised in 1994. Since 1985, the EC-China Trade and Co-operation Agreement was the main legal framework of EU-China relations. The EU issued a policy paper in 1995 with the title “A Long Term Policy for China-Europe Relations“, followed by the first EU-China Summit in London in 1998. In 2003, the Chinese government published its first ever European strategy paper called “China EU Policy Paper”. Cooperation was upgraded to a comprehensive strategic partnership, as formulated in an EU policy paper in the same year (Caira, 2012, 284).

China-EU relations mainly focussed on trade aspects which were rather undisputed and in both blocs’ economic interest. However, there were two issues which frequently came on top of the agenda: the market economy status and the ban on weapons trade. These issues actually intertwine as granting the status of a market economy could protect China from possible trade restrictions imposed by EU countries.

China joined the World Trade Organisation in 2001, but developed economies such as the US refused to acknowledge that China was a market economy, because of the role of government support in state owned enterprises. Europe generally supported China’s WTO accession but claimed China’s state-owned enterprises received unfair subsidies. They argued that China’s domestic prices were set by government agencies and policies, not the forces of supply and demand.

Organising trade relations therefore had to deal with many issues and (sometimes false) perceptions: the EU frequently accused China of import tariffs, largely closed service markets, technical barriers to trade, violation of property rights, transfer of technologies and discrimination by the authorities. China complained about the measures introduced by the EU to counter price dumping as “illegal protectionism” and claimed that EU safety standards excluded Chinese products from European markets. In essence, both sides perceived the other as not playing by the rules, which was later mirrored in the anti-dumping actions on solar panel imports from China among many other economic rifts. In addition, the relations have been hampered through themes to which China is sensitive (Tibet, protection of human rights, the arms embargo, and most recently: protests in Hong Kong). From China’s perspective, these problems cannot be dealt with separately as they all concern Chinese sovereignty and international status (Caira, 2012, 285). Adding to this, another source of misunderstanding is the “peculiar characteristic of European external relations” (Caira, 2012, 286). The European Commission drafts the general policies of the common European action to be pursued towards

China; the Council expresses and protects member states' interests while the European Parliament, as the weakest actor in EU foreign policy, openly addresses human rights and issues of political freedom. This division of labour is becoming more complicated as national interests might contradict EU positions, as could be seen in the solar panel anti-dumping measures when there was a latent dispute between the Merkel government and the trade commissioner Karel de Gucht. Therefore, China perceives European foreign policy as heterogeneous and inconsistent and consequently favours negotiations with single member states rather than European institutions. The "misunderstanding" on principles between the EU and China is at odds with the growing mutual interdependencies with respect to economic development and the environment "and constitutes one of the key challenges of the emerging multipolar global order" (Kirchner, 2015, 100). Moreover, for China sovereignty and the pursuit of national interest remain an absolute concept, whereas EU member states pool their sovereignty into a supranational institution: "A post-sovereign EU may be neither efficient nor popular, but it has nevertheless become part of the political landscape in Europe" (Kirchner, 2015, 101).

Both Germany and the EU want to engage with China on a global level, increasingly perceived as an indispensable player in world politics. China, for its part, wants to share global responsibility and has joined numerous international institutions. For instance, China contributes 2,687 peacekeeping troops to the UN (May 2015). At the same time, China wants to preserve national sovereignty, territorial integrity and the unity of its country (Heberer/Senz, 2010, 675). Critical approaches towards the human rights situation are deemed as interference into internal affairs. In the international arena, China wants to improve its leverage on all important international questions through voting rights in the respective institutions. Europe also has wider strategic interests regarding global challenges such as climate change, resource depletion, energy efficiency, water scarcity, ecological degradation, poverty alleviation, disease control, nuclear non-proliferation piracy, and terrorism: both, the EU and the US consider China a strategic partner to tackle those issues. However, there is still no compliance when it comes to (perceived) security challenges: "This means that, although Europe in general shares China's view that there is no real strategic competition between them, it nevertheless often sides with the US in disputes with China, particularly on security issues" (Kundnani/Parello-Plesner, 2012, 7).

On the other hand, China (often sided by Russia) tends to disagree with Western positions in international organisations. This can be illustrated by the voting pattern in the UN Security

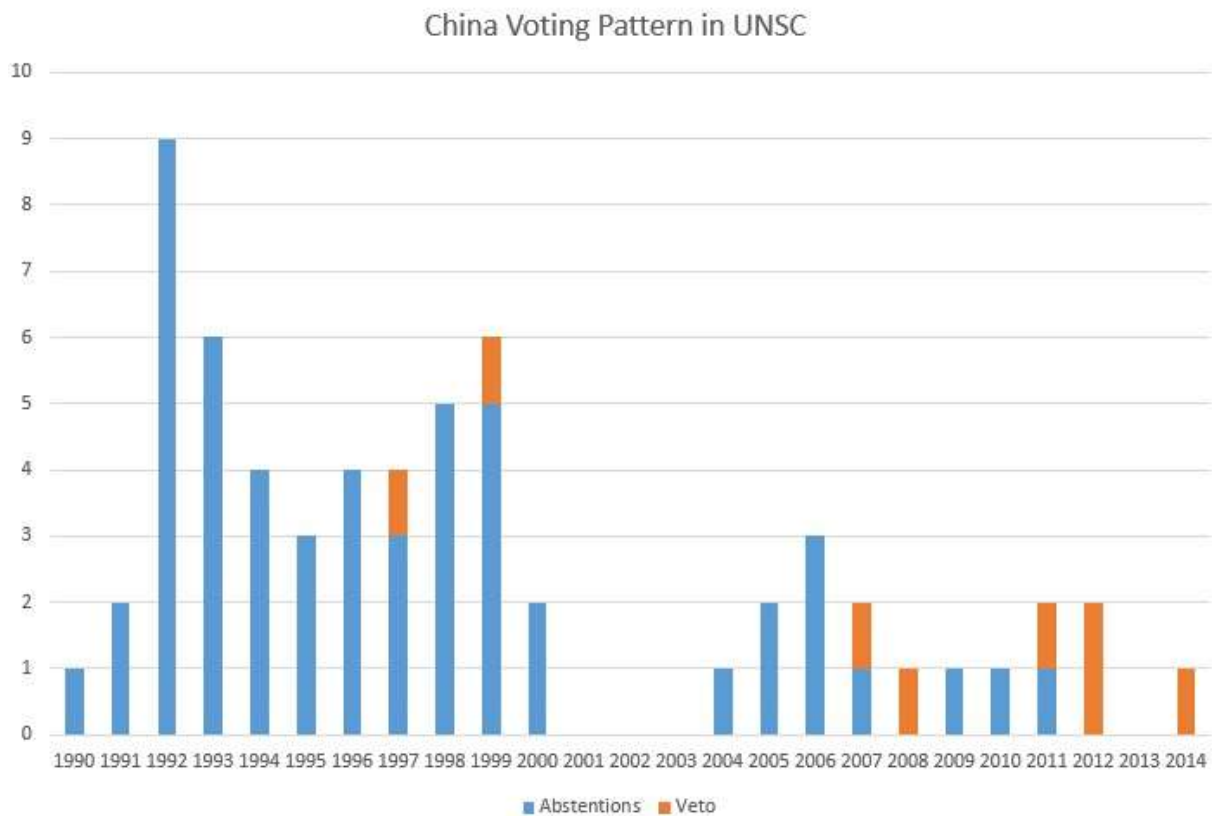
Council. However, as the graph 2 shows, China has used its veto and abstentions at the UN Security Council more cautiously since the early 1990s.

A strategic partnership must be considered from different angles: a crucial strategic aspect from China's point of view is the Taiwan issue. China supported German unification in 1990 and consequently expects Germany to stick to its one-China policy: "Chinese officials note that West Germany under Chancellor Konrad Adenauer did not follow the US in establishing diplomatic relations with Taiwan. Even with the current rapprochement between China and Taiwan, the fundamental situation remains unresolved and the US still maintains a legal commitment to supply Taiwan with sufficient defensive capabilities" (Kundnani/Parello-Plesner, 2012, 7). As mentioned above, Germany believes in a peaceful resolution of the Taiwan issue while acknowledging Chinese legal and political claims.

The question remains, from the Chinese point of view, whether Germany can "upload" its policy to EU level on this and other issues. Although Chinese analysts and officials see Germany becoming more powerful within Europe, they also realise that it might be insufficient to only speak with Berlin and instead necessary to include Paris, London, Warsaw and other capital cities to get something done in Brussels (Kundnani/Parello-Plesner, 2012, 7). The intervention in Libya in the year 2011 seems to be illustrative as China welcomed Germany's abstention on Resolution 1973 as a non-permanent member of the UN Security Council. However, this decision has also led to major divisions between the US, UK and France on the one side and Germany on the other side within NATO.

Regarding the Syrian crisis, China returned to its hardline approach on sovereignty and noninterference by blocking a UN Security Council vote in October 2011 on a resolution backing the use of "targeted measures" against Syria. That resolution was vetoed by Russia and China, who have expressed their opposition to UN involvement in Syria's internal affairs. This voting behaviour can also be partly explained by China's concerns that a resolution could have led to a Libyan-style foreign military intervention in Syria. However, China has agreed to UN ceasefire monitors and the elimination of Syrian chemical weapons: "Thus, in general terms, China, whilst at times practicing a certain amount of pragmatism, adheres more strongly than the EU to the doctrine of non-intervention, which includes opposition to economic and political sanctions against countries and to the empowerment of the International Criminal Court. As a consequence, from an EU perspective, ensuring Chinese cooperation at the UNSC level entails unreliability as well as frictions" (Kirchner, 2015, 107).

Graph 2: Abstentions and Vetoes of China in UN Security Council Resolutions



Own illustration with data from: <http://research.un.org/en/docs/sc/quick/veto>.

III. 2005-2009: The Normative Turn under Merkel

Germany's China policy shifted significantly to one which focused more heavily on human rights and less on accommodating the Chinese stance at the beginning of the first term under Chancellor Angela Merkel in 2005. Merkel famously raised eyebrows by meeting with the Dalai Lama in 2007, a move that led Beijing to call off a human rights dialogue that had been scheduled for several months later. However the emphasis on economic and trade relations prevailed as human rights took a back seat with the impending financial crisis in 2008.

Merkel's rise heralded a move to a more value-based foreign policy, in contrast to that under Schröder, which was realist and business-based. Merkel brought human rights to the fore overtly, meeting Bishop Aloysius Jin during her first state visit to China in May 2006, receiving the Dalai Lama at the chancellery in 2007. Her decision not to attend the Beijing Olympic Games in 2008 – and Schröder's plan to do so, despite having left the post of chancellor – was a telling sign for media, with *Spiegel* magazine suggesting it “reflect[ed] the two chancellors’

differing approaches towards China” (Der Spiegel, 2008). Unlike Schröder, Merkel supported the continuation of an arms embargo that had been put in place by the European Union in the aftermath of the Tiananmen Square incident of 1989. Upon her first visit to China as chancellor in May 2006, her team reportedly submitted 26 human rights cases of concern (Kinzelbach, 2015, 148). The coalition stated that it aimed to “intensify our rule of law dialogue with China with the goal of strengthening democracy, the rule of law and human rights” (CDU, CSU und SPD, 2005, 157). Under Merkel, the country took a decidedly more hardline approach to human rights (Kinzelbach, 2015, 148).

This stance was evident in the EU’s human rights dialogue with China, too, when Germany took the rotating presidency. On the occasion of a seminar on May 10, 2007, preceding the dialogue session, the Chinese delegation had protested against the inclusion of two NGOs invited by the EU. Germany, however, refused to accede their demand to exclude them, leading the Chinese delegation to walk out. Germany’s stance “astounded” NGO participants in the way it demonstrated that the EU “was willing to go so far” (Kinzelbach, 2015, 151).

This new stress on human rights stemmed in part from a general refocus on shared values in the new grand coalition, and a desire to distinguish themselves from the government under Schröder and the alliance of the Social Democrats and Greens, whose foreign policy goals, they claimed, had damaged Germany’s image. The Christian Democrats had campaigned on a platform highlighting a break from what it characterized as an unstructured foreign and security policy approach. The government of the preceding years, they said in their 2005 party program, had “squandered international trust and damaged Germany’s image in the world through its lack of a cohesive foreign and security policy, through an erosion of our ability to join in alliance in NATO, through Russia and China policies which lacked principle, and through a visa policy which hurts Germany’s interests, at the cost of the people” (Bundesvorstands der CDU und des Parteivorstands der CSU, 2005). In their point of view, it was time for change.

They sought to achieve this through an increased emphasis on shared values, particularly in foreign relations. “We can once again become a strong partner in Europe and the world. Germany’s foreign and European policy is grounded on values; it is interest-driven politics”, Merkel said on 30 November, 2005, in Berlin when giving her policy statement to kick off her first term. She spoke of Germany’s relationship with the United States, for example, as a “Partnerschaft der Wertegemeinschaft” – a community of shared values. The message was

clear: values formed a cornerstone of the grand coalition's foreign policy, and Merkel spoke of human rights and core values as their basis (Yi, 2012, 180-181).

The coalition under Schröder, by contrast, had discussed human rights without making reference to any country in their coalition agreement (Sozialdemokratische Partei Deutschlands und Bündnis 90/Die Grünen, 1998). Schröder had downplayed human rights in his dealings with the Chinese, preferring to corral the vexing issues of law and human rights to specific forums in what has been called "Dialogkultur" (Heinz, 2011, 667). Some have argued that the rule of law dialogue with China, initiated in 1998, did not provide a suitable framework for discussing human rights and was designed to "deflect" sensitivities about the issue among the German electorate (Schulte-Kukmann, 2005, 7). Notably, Gerd Poppe, German Special Representative for Human Rights, did not join Schröder's delegation during the 1999 visit to China where the chancellor discussed the creation of the dialogue (Kinzelbach, 2015, 67).

This reconfiguration toward a value-based foreign policy was partly due to the personality of Merkel. Her experience growing up in East Germany during the Cold War appears to have resulted in a desire to promote human rights during her foreign visits, particularly in Russia and China (Pfetsch, 2012, 221-222). Her background being raised by a pastor also played a role (Yi, 2012, 128). This upbringing appears to have motivated Merkel to seek to promote human rights and self-determination, resulting perhaps in a closer relationship to western countries through the strengthening of transatlantic relations and European relations and a smaller focus on Russia and China (Pfetsch 2012, 224). However, the importance of Merkel's personality should not be overstated. The idea of Merkel as a leader driven by ideals and ideology does not jive, for example, with other analyses of the chancellor as physicist who was not driven by ideology, but was rather highly analytical, conciliatory and able to withhold of her views.

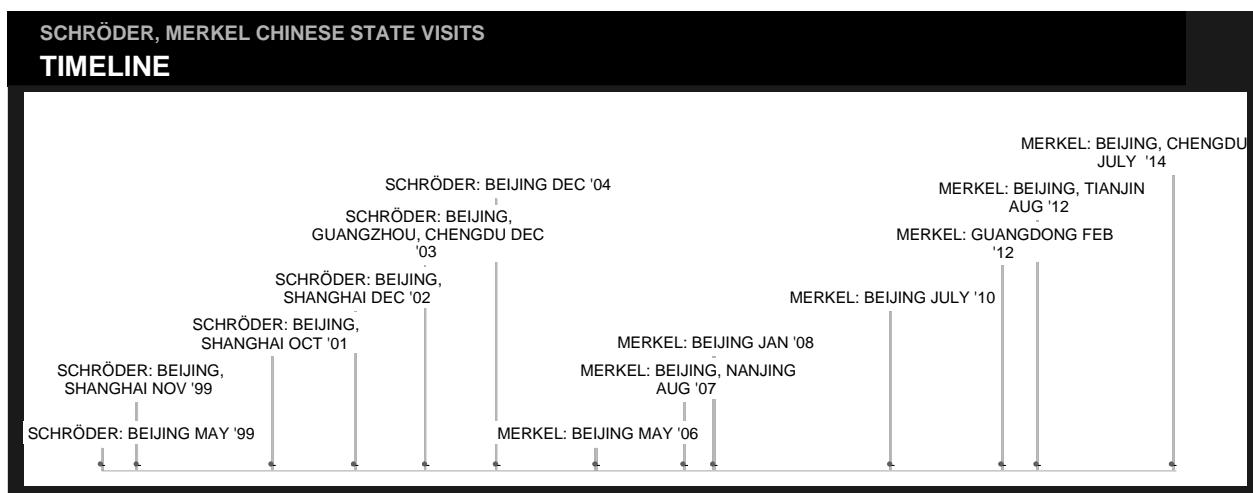
The government was also under internal political pressure. With the 2008 Beijing Olympics approaching, the human rights situation in China was an important topic at the Bundestag during Merkel's first term. The administration was questioned at length over its handling of human rights issues in China. For example, the Free Democrats (FDP) questioned the administration about Merkel's talks during her first trip to China (Deutscher Bundestag, 2006).

Meanwhile, the Greens questioned the administration over Germany and the European Union's treatment of China's human rights situation in the lead-up to the Olympic Games, including protests, forced resettlement, press freedom and more (Deutscher Bundestag, 2007). At the Bundestag, human rights appeared repeatedly as part of the China-related questions and answers during the 16th legislative period (Yi, 2012, 178).

Merkel's outspokenness regarding human rights, however, did not remain the status quo for long. After a time following the uproar regarding her reception of the Dalai Lama in 2007, relations once again normalized. As 2008 came to a close and election year came about, the Christian Democrats made her the center of their campaign, and Merkel, in turn, attempted to steer clear of trouble (Marsh, 2009). Henceforth, Germany's relationship with China would prove to be as motivated by economics and business as it had been under Schröder, particularly as the sovereign debt crisis and subprime crisis emerged toward the end of her first term.

A comparison of the two chancellors' state visits reveals, in fact, that Merkel did not go to China any less than Schröder did, except for a gap between 2008 and 2010 – the period during and after the Beijing Olympics, but before the sovereign debt crisis began to dominate EU affairs. The EU-China Summit on 2011 had to be postponed due to an emergency EU summit on the euro. This not only signaled to China the severity of the economic crisis but also raised expectations in Beijing that the EU will be able to overcome the crisis through deeper integration (Wacker, 2015, 10).

Graph 3: Schröder and Merkel China Visits



Own illustration.

In many ways, it simply made sense for the two to come together. In China, Germany found an export market. In Germany, China found the technical know-how that it needed as it tried to shake off its image as the factory of the world and develop higher-value industries. There was also an alignment between Germany and China, whose export-heavy economic structures bore similarities, and which both wanted to reform financial markets and global economic governance (Kundnani, 2014, 93-4).

Nowhere was the symbiotic relationship clearer than in trade. Exports to China grew by over five times in the decade to 2009, reaching €37.3 billion. China overtook other countries as a market for German goods, accounting for over 6 per cent of its exports in 2009, compared to just 1.35 per cent in 1999. Where in 2000 it stood in 16th place among destinations for German exports, by 2008 it had risen to 11th. Today, it stands in fourth place after France, the United Kingdom and the United States. The consistent growth of trade and China's sustained rise up the ranks of Germany's trade partners – and vice versa – even in 2006 and 2007, the years when Merkel's outspokenness regarding human rights resulted in a deterioration of diplomatic ties, demonstrate that economic relations were significantly decoupled from political relations.

Likewise in terms of technology, the two countries seemed a winning match. With its decreasing emphasis on growth and increasing attention to quality, as demonstrated by its 11th and 12th Five-Year Plans, Beijing was aiming for sustainable development and new technology. Since 2003, China had been the global market leader for ICT exports, with a value of \$356.4 billion in 2009 (German Federal Statistical Office 2015). To further develop, the country needed expertise, and Germany seemed to be the perfect counterpart.

The enduring influence of *Ostpolitik*, the approach developed during the end of the Cold War for German relations with Russia, which stressed “Change through Rapprochement” (“Wandel durch Annäherung”), played a role in the tendency toward strong economic relations with China. The idea, which had later evolved into the concept “Change through Trade”, continued at the time to influence German foreign policy, particularly vis-a-vis China and Russia (Kundnani, 2013). The idea was that trade would promote political change. The suitability of this strategy, forged in an era when both countries were significantly weaker, to the much stronger China of today has been questioned (Weiß, 2013). Nonetheless, it continued to hold sway in Berlin.

As Merkel's first term came to a close, however, whether trade did lead to change became simply beside the point. As inflation took a dive and uncertainties in the eurozone mounted, what mattered most was just the *Handel* part of that equation, and as China and Germany's relation grew ever more special, trade is exactly what Germany got.

IV. 2009-2013: ‘Special Relationship’ in Times of Economic Crises

Merkel’s criticism of human rights in China at the beginning of her chancellorship would prove an anomaly later in the German-Chinese relationship. As the economic crisis began at the end of her first term and threw the whole of Europe into crisis mode during her second term as chancellor, Merkel – at the helm of Germany, which became known as the region’s “reluctant leader” – could do well to have China on her side. But it was not only a marriage of convenience to weather the storm. The German-Chinese relationship, as we saw previously and shall see again, simply made sense, in part as a result of the changing geopolitical landscape, but also because both countries stood to derive massive gains from it. For Germany, this meant a growing export market; and for China, technological know-how and a sympathetic ear in Europe.

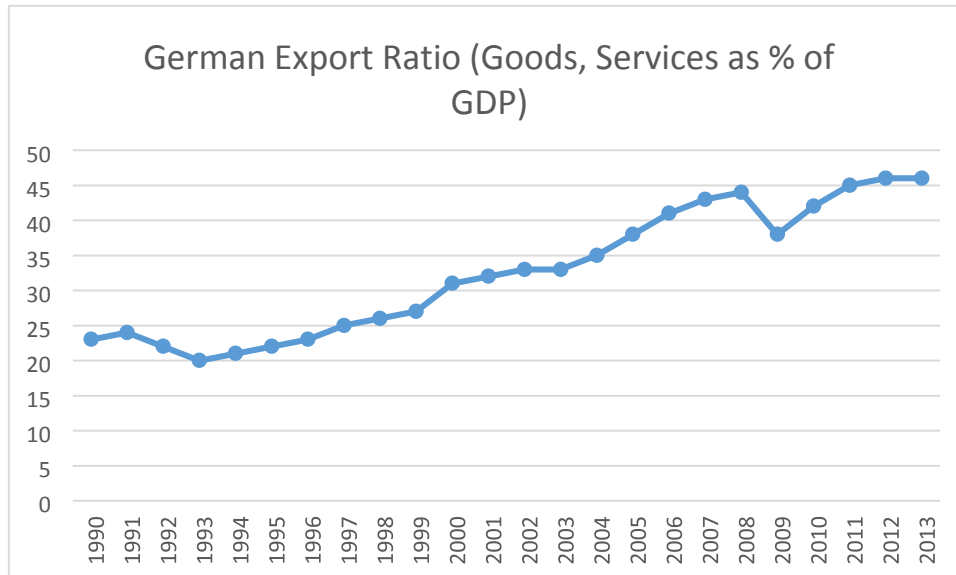
As Merkel took the chancellery for the second time, the looming economic crisis placed her government under intense pressure. The contraction which had begun at the end of her preceding term took a turn for the worse in 2009. Gross domestic product went into the negative for the first time in six years, reaching a low of -5 per cent, the lowest since World War Two. Europe had fallen into a sovereign debt crisis that engulfed Greece, Ireland, Portugal, Spain and Cyprus. In Germany, IKB Industriebank and lender Hypo Real Estate Holding were reeling from exposure to the American subprime mortgage crisis. Germany, as the eurozone’s most robust economy and biggest creditor at that point, had been, in the words of Hans Kundnani in his book *The Paradox of Power*, “thrust into an extraordinary – and, in the history of the EU, unprecedented – position” (Kundnani, 2015, 2). By 2010, Merkel was deeply involved in negotiating a rescue package for Greece and a stability fund for other countries that fell into trouble. Merkel had been “catapulted to the forefront of European policy-making during the euro trauma”, and she had to learn along the way how to handle it (Crawford and Czuczka, 2013, 14).

Against this background, the new coalition of the Christian Democrats and the Free Democratic Party focused on measures to encourage employment and cost efficiency, safeguard jobs, and assist businesses in financing their investments. But the biggest rallying cry was exports, and specifically to China.

Indeed, outward trade had grown exceedingly important, in particular since the Schröder administration. Whereas in the years from the reunification to the beginning of Schröder’s administration the ratio of the export of goods and services to GDP hovered from 20 to 25 per

cent, after 1998, it rose rapidly, reaching 46 per cent by the end of Merkel’s second term in 2013. One-third of German jobs rely on exports (Crawford and Czuczka, 2013, 117).

Graph 4: German Export Ratio



Own illustration with data from World Development Indicators, World Bank.

To boost the economy amid the financial storm, therefore, clearly Merkel had to support two key groups that formed the core of Germany’s export industry: the *Mittelstand*, (small- and medium-sized businesses), which sold machinery and technology and brand-name automobiles – doing essentially what Germany gained reputation for: producing goods. Nowhere was there a clearer answer than in China.

China became vital for helping Germany to weather the storm. As we previously saw, for years before the crisis, Germany had been cultivating China as an export market. Now, as Germany’s leaders surveyed the damage caused by the crisis, it would have been hard to ignore that China was the only destination where export values increased in 2009, and that it had regained a position it had once had in the early 2000s among Germany’s top-10 export destinations (Meyer, 2010, 366). Exports were key to Germany’s survival during the crisis, “powering” the country “out of recession” (Crawford and Czuczka, 2013, 117), and China – where Ernst and Young forecast in 2011 the middle class population would rise to 1 billion by 2030 – was key to exports. China became an “important driver of economic growth”, particularly following the recession (Erber, 2014, 8).

The symbiotic relationship that had been developing since Merkel's first term became key now to Germany's economic future. Just how significant this country of almost 1.4 billion people was can be demonstrated by the automotive sector, the largest of Germany's industries, which accounted for €384 billion in turnover in 2014, or about 20 per cent of industrial revenue overall. Automobiles and auto parts accounted for about 17 per cent of exports during Merkel's second term, according to figures from the Federal Statistical Office. Meanwhile in China, the auto sector had reached a compound annual growth of 24 per cent from 2005 to 2011, and overtook the United States in new car sales in 2009 (McKinsey, 2012, 1).

Sales of German cars in China more than doubled to 3.7 million from 2009 to 2013 (Ernst & Young, 2014). BMW Group, Volkswagen Group and Daimler Group's sales figures reveal just how much their ability to survive and thrive was interlinked with China. The country accounted for 19.9 per cent of BMW's sales by volume by 2013, up from 7.7 per cent five years earlier. For Volkswagen, by the end of Merkel's second term, China made up 36.5 per cent of its passenger vehicle deliveries by volume. Meanwhile China made up 9.07 per cent of revenues for Daimler in 2013. With a burgeoning middle and a seemingly insatiable appetite for personal cars, particularly premium and luxury vehicles, big auto in Germany had found a safe haven in China.

That meant politicians needed to listen. With exports commanding such a large share of GDP, the companies that produce the goods have a greater influence over foreign policy (Kundnani, 2014, 204). Merkel had to face a staunch auto lobby demanding strong ties with China.

The relationship also went beyond trade and technology, expanding into foreign direct investment. Chinese firms started buying up German companies at a time when those firms, particularly SMEs, needed liquidity during the crisis. The year 2012 saw Sany, a Hunanheadquartered maker of heavy machinery, purchase concrete-pumpmaker Putzmeister in the biggest Chinese takeover of a German company until that point, in a deal worth €360 million. The same year, Weichai Power bought a 25 per cent stake in forklift-maker Kion, which it raised to 30 per cent the following year. At the end-2012, China's FDI in Germany had risen to €4.1 billion – still small compared to the €597 billion from other countries, but enough that one Deutsche Bank analyst called it “too important to ignore” (Deutsche Bank Research, 2014, 1). Despite protests, for example, by 700 Putzmeister employees following the merger, and general negative sentiment about German “Mittelstand” being sold off to Chinese companies, the inflow of foreign capital occurred at a time when it was much needed.

So valuable was this emerging “special relationship” to both countries that it managed to weather a key moment of tension in 2012, when allegations of dumping by solar panel makers in China emerged.

EU ProSun, a group of 25 European solar panel makers at the time, sought an investigation into whether China was selling panels at below-market prices, which the European Commission launched in September 2012. Chinese manufacturers, they claimed, were dumping €21 billion worth of panels to force European producers out of the market, aided by generous state subsidies from the government. During the 11th five-year-plan from 2005 to 2010, production had grown by 100 per cent annually. The case, the EU’s biggest trade investigation ever, and one which involved €21 million in imported Chinese panels, developed into a test of the EU members’ ability to pursue a unified trade policy. Countries like France, Italy, Portugal and Lithuania decided in favor of protecting the European industry, but other countries came down on the other side, including Britain, the Netherlands, and Belgium, where EU ProSun was based.

Notably, those who opposed protection included Germany, even though EU ProSun was led by German manufacturer SolarWorld AG, and despite the potential impact back home. According to the German Solar Association, the photovoltaic industry accounted for 100,000 jobs in 2011 and 2012, with 200 firms producing cells, modules and components (Bundesverband Solarwirtschaft 2012 and 2013). At the time of the investigations, the European photovoltaic market was peaking – just the year before, it had experienced a record year with 22.7 gigawatts of new installations (European Photovoltaic Industry Association 2013, 3). In spite of lobbying from manufacturers on home soil, Germany opted to preserve the Chinese relationship, telling the EU Commission in May 2013 that it opposed proposed import tariffs. Merkel also promised Premier Li Keqiang during his visit that she would work to resolve the disagreement.

The dispute laid bare the fissures among the then-27 EU member states, with 15 expressing opposition to tariffs by May 2013. Most importantly, it showed that Germany’s commitment to both its EU neighbours and EU or domestic industry was not a given when weighed against its economic relationship with China. Trade between the two rose to €140 billion that year, with Germany as China’s biggest trade partner in Europe, and China as Germany’s biggest in Asia and third-biggest worldwide. The commission imposed provisional tariffs initially, however in the end it placed a price floor on imports of Chinese solar panels, ending the dispute.

The strength of China’s economy in a time when Europe was facing financial crisis meant the country had a strong bargaining chip which created a power shift that made it possible for it to

set aside EU demands regarding human rights (Kinzelbach, 2014, 170). Against this background, it is no surprise that in 2010, China unilaterally decided to reduce the European Union Human Rights Dialogue and Dialogue Seminar from twice- to once-yearly sessions (Kinzelbach, 2015, 187, 198).

For all these reasons, as Merkel entered her third and current term, the two countries signed an agreement upgrading their relationship from one of “strategic partnership in global responsibility” to one of “comprehensive strategic partnership”. While it may seem like minor semantics to some, the signal they were sending was loud and clear: they were, as President Xi Jinping said at the time, partners not only in economic issues, but also strategically and politically.

That is all good and well for Germany, but is what is good for Germany also good for its old partners elsewhere, most importantly, the United States? China’s rise has made US officials increasingly seek to contain it – a strategy that some have speculated may be undermined by Germany’s technology transfer to China (Miskimmon and Molthof, 2015, 75). What this means for the future, however, remains to be seen. It could well be that it just isn’t that easy, as the adage says, to make new friends but keep the old ones.

V. Conflict in Ukraine: Return of Stability and Security Issues

Against this backdrop, the current state of German-Sino relations must be assessed in the context of the ongoing international security and humanitarian crisis in Eastern Europe and the Middle East. The conflicts in Syria and Iraq, the atomic disputes with North Korea and Iran, the tensions in the South and East China Seas and the Ukrainian crisis were the main international topics during Merkel’s China visit in July 2014 (Deutsche Welle, 2014). Xi proposed that China and Germany increase their cooperation on improving the current international system while it became obvious that the two countries' positions on Ukraine are not very close – mostly because Beijing doesn't really want to get involved in Ukraine. Hopes were disappointed that Merkel can persuade the Chinese leadership to use their influence in Moscow for the sake of de-escalating tensions in Ukraine. Russia’s military interference in Ukraine illustrates an unforeseen return of geopolitics in Europe: it annexed Crimea by a referendum and destabilized the eastern part of Ukraine. China for its part is very sensitive on the issue of disputed territories due to Tibet and Taiwan, however, in those cases there is no third power directly involved, and China has no frozen or open military conflicts on its own territory. In addition, China hopes that

the assertive role of Russia will deflect US strategic pressure away from Asia (Rolland, 2015). China pushes forward a “Silk Road diplomacy,” with Central Asia at the core and a focus on economic issues. The reconfiguration of energy exchanges has already begun with the two deals signed in 2014 between China and Russia for gas supplies. The reflection on political goals in foreign policy of China goes back to the Five Principles of Peaceful Co-existence declared in 1954: mutual respect for each other’s territorial integrity and sovereignty; to abide by mutual non-aggression; non-interference in each other’s internal affairs; respect for mutual equality and to work for mutual benefit; and peaceful coexistence. Those principles were all broken in the Ukraine conflict. China has not yet found a suitable answer together with its European partners to what many call the biggest crisis in European security since the end of the Cold War. This could lead to a dangerous precedent not only for Europe but also for Central and East Asia. China is seeking for a way to reconcile the traditional principles of non-intervention with its more assertive role in international affairs. China is ready to cooperate with any partner regardless of ideological, political or religious differences. The only precondition is the respect of sovereignty and territorial integrity. These principles are now at stake – with unpredictable consequences for the Chinese approach of selective multilateralism and the whole of EU-China relations. However, western states should be cautious as well, making sure that US (and European) policy is not pushing Russia into China’s arms and vice versa. No global issue can be solved without China, a country representing one fifth of the world’s population. China’s reliance on a stable and cooperative world order makes it an actor which pushes for a set of international rules, not at last due to self-interest. This makes China a very reliable and predictable partner for the West – but after all, the current situation forces both sides to do some soul searching

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