

Merkel plays double game with China

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On 26 May, the Chinese prime minister, Li Keqiang met with the German chancellor, Angela Merkel in Berlin. Germany was the only EU member state which Li visited during his first foreign trip. Chancellor Merkel promised that Germany would do everything in its power to prevent an anti-dumping duty being imposed on Chinese solar panels. However, the European Commission announced on 5 June that interim punitive duties were being imposed and would apply from 6 June for a maximum of six months. For the first two months, the duty rate will be 11.8%, and after 6 August, unless the dispute is solved amicably, the rate will grow to 47.6%. Upon expiry of the period in which the interim duty applies, the EU may decide, subject to consent from its member states, that fixed customs duty be imposed on Chinese solar panels for five years.

The seventeen agreements and documents signed during the visit include a declaration concerning legal assistance to Chinese companies investing in Germany and German companies investing in China. The parties also agreed on co-operation in the energy saving area. Germany's Volkswagen signed an agreement with its Chinese partner, SAIC, concerning the construction of a new factory in Changsha in central China, and the chemical corporation BASF signed initial agreements on two joint ventures in Xinjiang.

Commentary

- The example with Chinese solar modules illustrates the problem Germany has in relations with China. On the one hand, Germany itself had a strong solar sector. However, as a consequence of a reduction in the scale of state subsidies and competition from Chinese manufacturers (China sells solar modules worth 21 billion euros on the EU market), numerous German companies have found themselves on the verge of bankruptcy. For this reason precisely, one of the leading German manufacturers from this sector has brought a complaint against Chinese dumping to the European Commission. On the other hand, numerous German firms are strongly engaged in China, and are implementing large investments there. Therefore, a trade war against Beijing could significantly impede their expansion and affect the results of the German economy. Another problem is also the fact that German manufacturers of solar panels import components from China, and this could lead to an increase in the prices of solar panels.

- Germany is playing a double game in this case. It wants to maintain good relations with China and be its advocate in its contacts with the EU. Nevertheless, it also wants to send the message that the liberalisation of the Chinese market is taking place too slowly, and that it expects broader access for its companies, for example, to the Chinese public procurement sector. For this reason, Chancellor Merkel has already promised on several occasions to back China regarding the EU duties. She has also agreed to support the protest from fourteen EU member states, including the United Kingdom and the Netherlands, to the imposition of the punitive duties on Chinese solar panels; and this can be understood as undermining the legitimacy of the European Commission to conduct the EU's trade policy. It is difficult to assess now whether Berlin will become engaged in torpedoing the recent intentions of the European Commission to raise the duty from August.
- The CDU/CSU-FDP coalition has consistently pursued a strategy of building closer economic relations with Beijing and searching for a common stance on global issues. Bilateral economic co-operation, the opening up of the Chinese market and the improvement of the conditions for German firms to do business in are the priority issues for Berlin. The Chinese market is starting to play a key role from the point of view of the growth of German exports, especially at a time of recession in the eurozone.