



**INSTITUTE OF
STRATEGIC STUDIES**

web: www.issi.org.pk
phone: +92-920-4423, 24
fax: +92-920-4658

Issue Brief

(Views expressed in the brief are those of the author, and do not represent those of ISSI)

Emerging economic ties between China and EU

June 29, 2017

*Written by: Junaid Ashraf, Young ISSI Professional **

Edited by: Najam Rafique

* Mr. Junaid Ashraf has done M.Phil. in Government and Public Policy from National Defence University, Islamabad, in year 2014. He is currently working under Young ISSI Professional Corner at the ISSI. His area of interests include China, CPEC, and Governance.

Chinese Premier Li Keqiang arrived in Germany on May 31 for a two-day visit to Berlin which included meetings with German Chancellor Angela Merkel, followed by wider meetings with European Union leaders in Brussels.¹ The meetings focused on role of China and Germany in these times of uncertainties. Furthermore, the two leaders held extensive talks on issues from trade, climate change, the North Korea crisis, and civil rights, and a multitude of business deals were signed.² Importantly, this trip came at a time when the G-7 talks were not satisfactory; the G-7 meeting also indicated deepening rifts between EU and America. The visit is also a great opportunity for China to have more influence in EU's affairs.

Chinese Premier meetings with Germany and other European leaders in May 2017 might usher in a new era of their bilateral relationships. If looked at in a holistic way, it would also open Europe's trading relationship with China, as the European Union (EU) is shifting its focus on China for support on free trade due largely to Mr. Trump's mantra of 'America first' which also emphasizes protectionism.

On arrival of Chinese Premier in Germany, the country's biggest lender, the Deutsche Bank, declared US\$3 billion (2.7 billion Euros) worth of investments in collaboration with the China Development Bank for the Belt and Road Initiative.³ Germany is openly saying they need to change trends, as the German Chancellor said that Europe now has to forge its own path forward, as the US and Britain were no longer reliable close partners.⁴ In a meeting on June 1, 2017 she further said that "Germany must expand its partnership with China at what she described as "a time of global insecurity."⁵

China is already leading in terms of trade with Germany. In 2016, China moved past the US and France to become Germany's most important trading partner. Federal Statistics Office figures reviewed by

¹ <http://www.dw.com/en/chinese-premier-li-keqiang-meets-merkel-in-berlin-as-europe-pivots-to-asia/a-39071071>

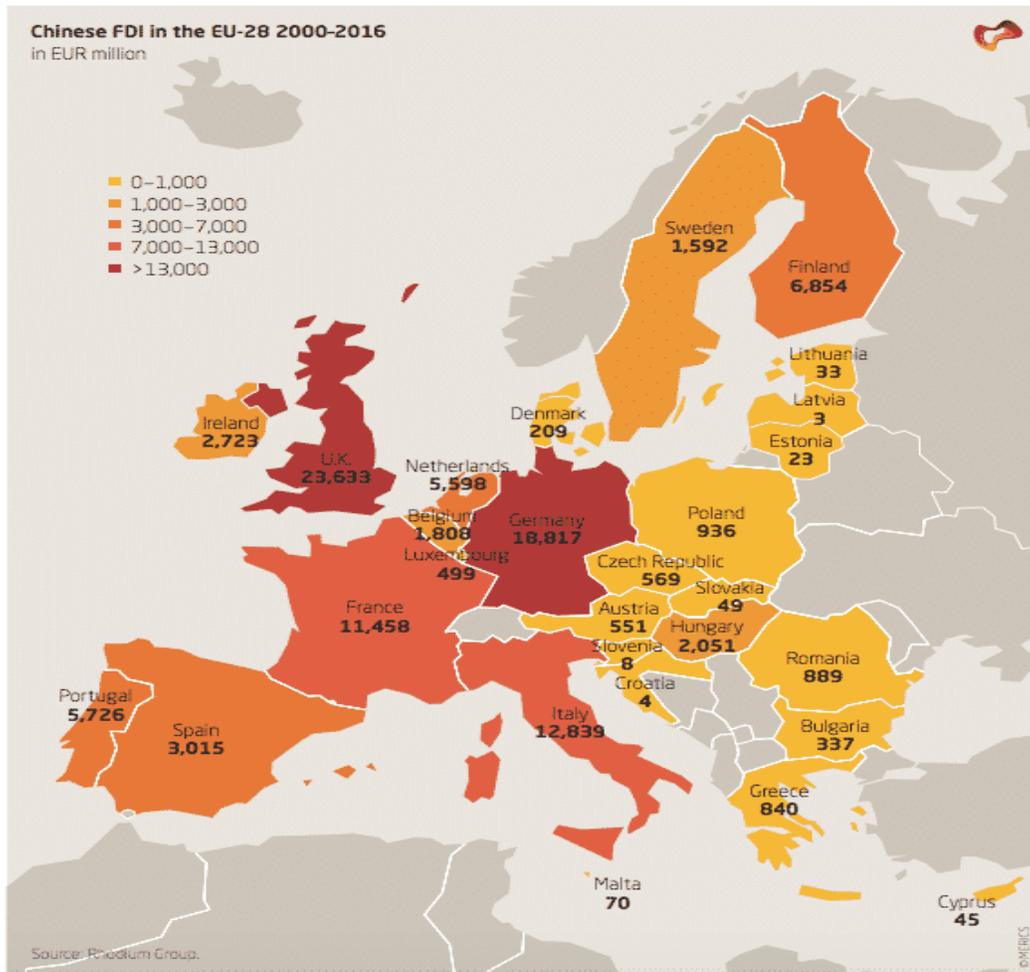
² <http://www.express.co.uk/news/world/811959/Germany-China-relations-partner-Angela-Merkel-Donald-Trump>

³ <https://johnib.wordpress.com/2017/06/01/chinese-premier-li-keqiang-meets-merkel-in-berlin-as-europe-pivots-to-asia/>

⁴ <http://www.dw.com/en/chinese-premier-li-keqiang-meets-merkel-in-berlin-as-europe-pivots-to-asia/a-39071071>

⁵ <http://www.dw.com/en/merkel-germany-china-must-expand-partnership-in-times-of-global-uncertainty/a-39078614>

Reuters showed that German imports from and exports to China rose to 170 billion Euros (\$180 billion).⁶ Furthermore, Germany has been China's largest trading partner among the European Union members for years.⁷ Germany, without a doubt is one of the strongest countries in the EU and has a major influence on EU policies. In that, increasing ties between China and Germany would also enhance China's relations with other European Union countries.



Source: (<https://www.adamtooze.com/2017/04/09/notes-global-condition-chinese-capital-us-germany/>)

China is also showing a great tilt towards working with Germany and the need for the two countries to uphold the trade and investment liberalization and facilitation, vigorously promote economic globalization and resolve issues in a proper way.⁸ A former ambassador to both China and Japan Volker

⁶ <http://www.reuters.com/article/us-germany-economy-trade-idUSKBN1622SO>

⁷ http://www.chinadaily.com.cn/business/2017-02/25/content_28347115.htm

⁸ http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1467839.shtml

Stanzel defended Germany's increasingly closeness with China and said that, "Improvement of that relationship seems sensible in order to pursue Germany's economic interests."⁹

US President Donald Trump is busy tweeting against Germany. In a recent tweet, he said that "We have a massive trade deficit with Germany, plus they pay FAR LESS than they should on NATO and military, very bad for US this will change."¹⁰ On the other hand, Germany has already started building on its established relations with China. China, with announcement of its Belt and Road initiative is looking to take up as leader of the global economic order. Mr. Trump's inward rhetoric is making the situation easier for China to grasp the opportunity, and maybe shape the future economic dynamics. China has endorsed itself this year as the chief advocator of free trade and globalization, in views that are divergent from Mr. Trump's protectionist agenda and rejection of multinational trade deals. It is also interesting to see that China's top leadership would visit Germany twice in two months as President Xi Jinping is also expected to take part in G-20 Summit in July 2017 at Hamburg, Germany, showing how important Germany is in the current world order.

Deteriorating ties with the US is an opportunity for China to cash in on a stronger foothold in Europe. The timing of the visit has stepped up the speculation that in the contemporary volatile state of global politics, China may prove a steadier partner on free trade and climate change than the US under Mr. Trump, even if it comes with its own complexities. Strong opposition on trade issues, as well as the probable influence of China in Asia and around the globe is foreseeable. Building trust and confronting the challenge against the damaging virus of protectionism is obligatory and needs a clear plan and action. The top economy of Europe and the top economy of Asia forming alliance in the current instable global environment seems a necessity. Analysts have often quoted this nexus as an economic dream team. It is essential that apart from building economic ties, cooperation should also be built on other important issues like climate change and energy. It would be interesting to see how the future unwinds for the two economic leaders, and the world.

⁹ https://www.nytimes.com/2017/05/31/world/europe/china-sees-an-opening-in-rift-between-trump-and-germany.html?mcubz=0&_r=0

¹⁰ <http://www.dw.com/en/trump-launches-new-twitter-tirade-against-germany/a-39045537>