

Status Quo and Prospects of Sino-German Economic and Trade Relations

Dr. Xu Lili

Contents

- **The status quo of Sino-German economic and trade relations**
 - **-Trade**
 - **-Investment**
- **The reasons for the status quo of Sino-German economic and trade relations**
- **Prospects of Sino-German economic and trade relations**

1. The status quo of Sino-German economic and trade relations (Status quo: Wirtschafts- und Handelsbeziehungen)

- Germany and China are important trading partners for each other, and bilateral trade between the two sides has been steadily increasing in the past ten years. (wichtige Handelspartner)
- In 2019, Sino-German total trade volume stood at nearly 206 billion euros, accounting for approximately **8.5%** of Germany's foreign trade and 4% of China's foreign trade. (Handelsvolumen)
- Since 2016, China has surpassed the United States to become Germany's largest import and export trading partner. (deutscher größter Warenhandelspartner)
- In recent years, Germany's trade with China has gradually turned from a deficit to a surplus, and in 2019 it was about 21.8 billion US dollars. (Deutsche Handelsüberschüsse)

1. The status quo of Sino-German economic and trade relations (Status quo: Wirtschafts-und Handelsbeziehungen)

- In 2020, affected by the COVID-19, China surpassed the United States for the first time and became Germany's largest export destination. (Das größte Exportzielland Deutschlands)
 - From April to June, Germany's total exports to China approached 23 billion euros. (deutsche Exportvolumen nach China)
 - Germany's exports to the United States in the same period were about 20 billion euros.
 - Deutscher Export in die USA
 - The German Institute for Economic Research (DIW Berlin) issued a report stating that by the end of 2020, China is expected to become Germany's largest export market. (Das größte Exportmarkt Deutschlands)

The structure of Sino-German trade(Handelsstruktur)

- **In 2009, the trade volume of top 10 German import and export categories with China accounted for 66.9% of the total Sino-German trade.**
- German exports to China are mainly capital and technology-intensive, while China's exports to Germany are mainly labor-intensive.
- **In 2019, the top 10 German import and export trade categories with China accounted for 95.0% of the total Sino-German trade.**
- * Mechanical and electrical products have always been a key area of Sino-German trade.
- * Among the commodities exported from China to Germany, the proportion of low value-added products such as textiles, furniture and toys has decreased
- **China and the EU are highly dependent on each other in economy and trade with high trade complementarity. In many areas, an intra-industrial trade pattern between the two sides has been formed.**

2. Status quo of Sino-German investment relations (Status quo: Investitionen)

- There are 3 million companies in Germany.
- **7%** of these companies' sales in 2018 came from the Chinese market.
- **15%** of the sales of the 30 companies listed in the German DAX come from the Chinese market.
- There are 2000 Chinese companies investing in Germany.
- Bilateral investment between China and Germany exceeds 100 billion US dollars.
- The change from one-side investment to mutual investment is a significant change in the economic and trade relationship between the two sides.

German investment in China remains active (dynamische deutsche Investitionen in China)

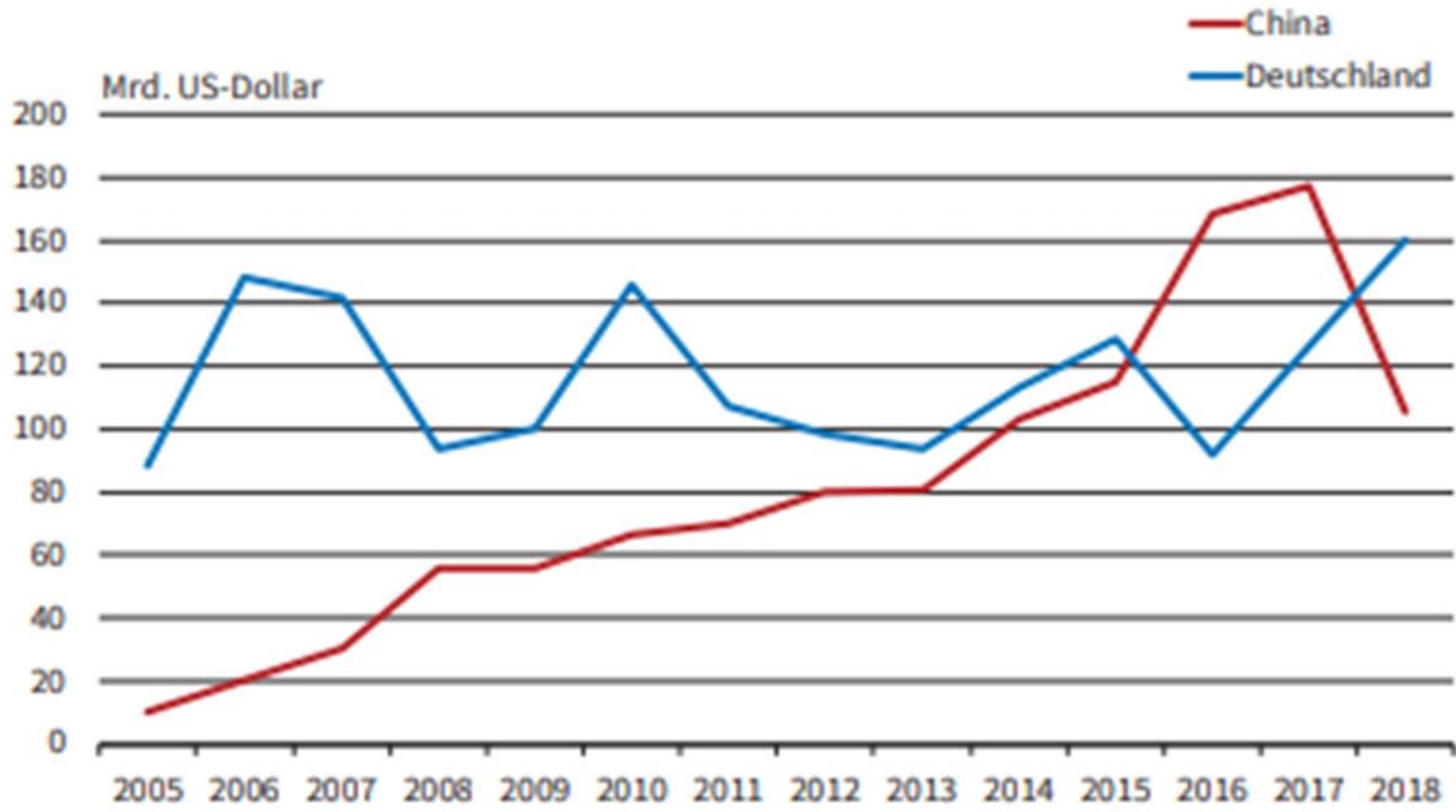
- **Since 2007, German investment in China has shown an overall upward trend.**
- * In 2019, Volkswagen's total sales in the Chinese market accounted for 40% of its total global sales. Volkswagen announced that it will invest about 2 billion euros in China's electric vehicles.
- China has become the third largest market for BASF in Germany. BASF announced in 2018 that it would invest 10 billion US dollars in a new integrated chemical production base in Guangdong.
- **According to the German Business Survey 2018/2019 conducted by the German Chamber of Commerce in China, German companies in China are mostly engaged in machinery/industrial equipment and automotive industries, followed by business services and plastic and metal products. Most of these German companies are concentrated in the Yangtze River Delta, the Bohai Economic Rim and the Pearl River Delta.**
- **More than 70% of German companies in China are wholly foreign-owned enterprises, most of which are small and medium enterprises.**

German investment in China remains active

- As of the end of March 2020, China has imported 25,491 technologies from Germany, with a contract value of 87.49 billion US dollars. Germany is the European country with **the largest number of technology transfers** to China.
- Technologietransfer

Chinese investment in Germany (chinesische Investitionen in Deutschland)

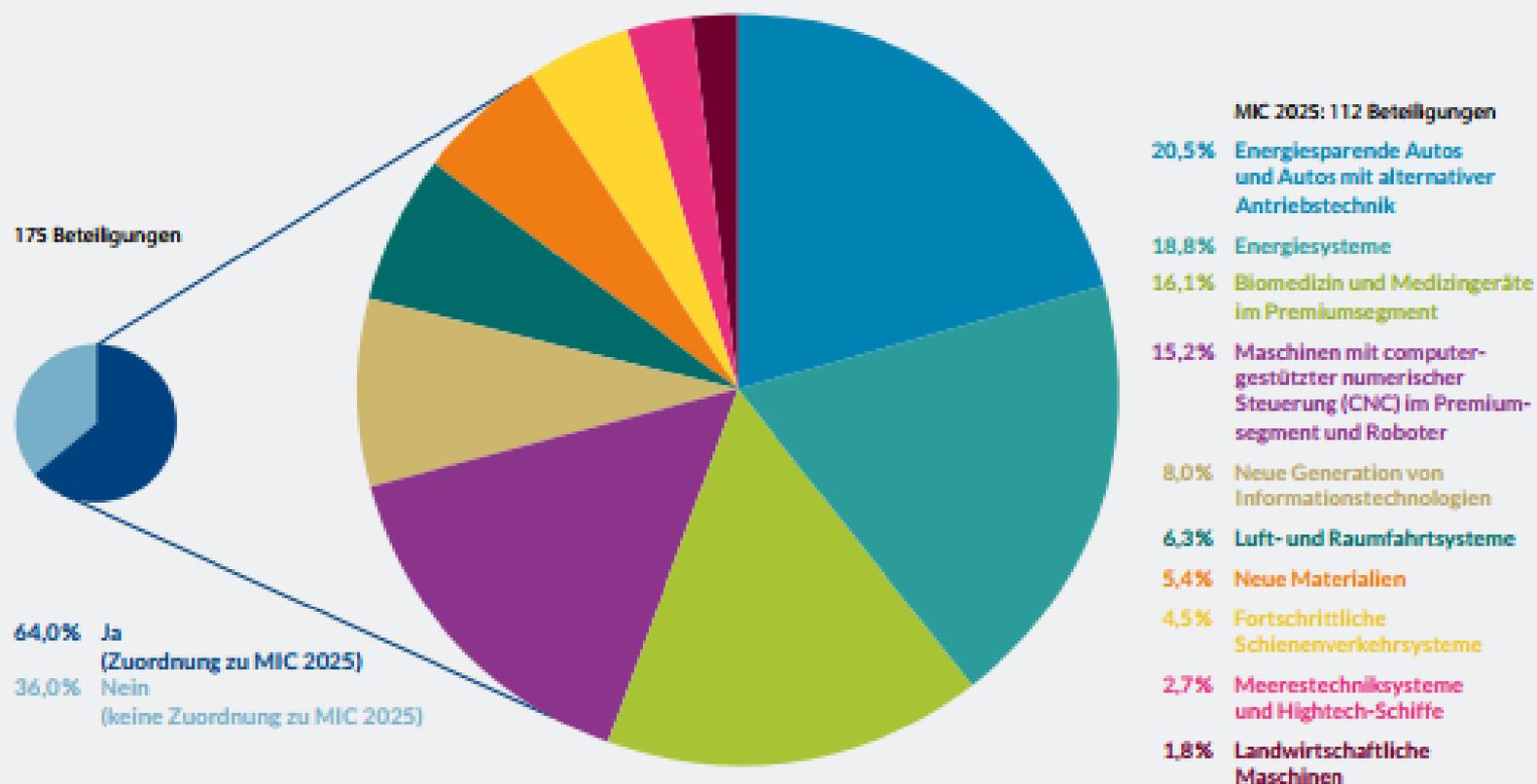
Chinas ADI-Flüsse im Vergleich zu deutschen ADI-Flüssen
2005-2018



Datenquelle: AEI (2019); Bundesbank (2019); Darstellung der Autoren.

Chinese investment in Germany and Europe (chinesische Investitionen in Deutschland und Europa)

ABBILDUNG 7: Zuordnung chinesische Firmenbeteiligungen in Deutschland zu MIC 2025, 2014 – 2017 (in Prozent)



Chinese investment in Germany and Europe (chinesische Investitionen in Deutschland und Europa)

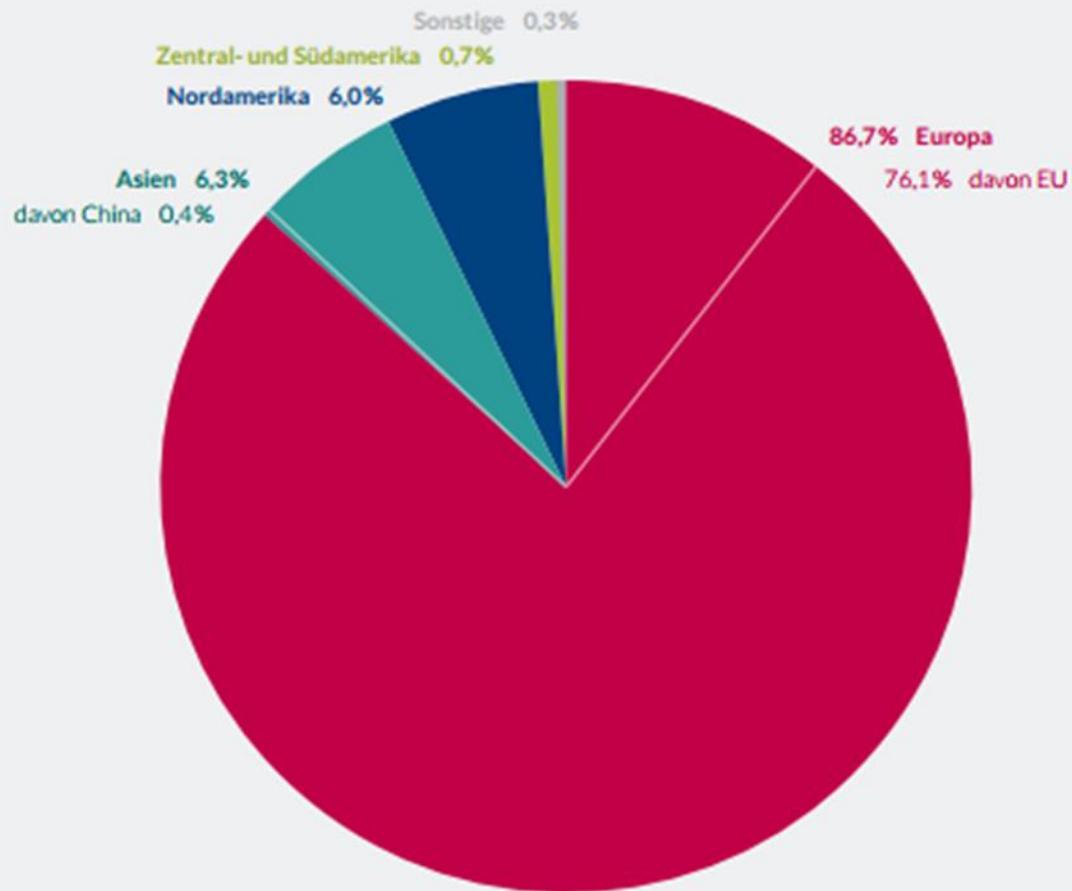
- **In 2019, China's FDI in Europe fell to a 5-year low, from 17.4 billion euros in 2018 to 11.7 billion euros in 2019.**
 - * This corresponds to China's slowdown in foreign investment since 2016.
- **At the same time, the share of Germany in China's investment in Europe continues to decline, from 12% in 2018 to 4%.**
 - * From 2000 to 2019, Germany accounted for the second largest Chinese investment in Europe, with a total investment of approximately 22.7 billion euros.
- * The UK ranked first with 50.3 billion euros and Italy fell to third with 15.9 billion euros.
- * In 2019, China fell out of the top three sources of investment in Germany for the first time in nearly 10 years (after the United States, the United Kingdom, and Switzerland).

Chinese investment in Germany and Europe (chineseische Investitionen in Deutschland und Europa)

- In terms of investment structure, from 2016 to 2017, Chinese investment in key areas in Europe such as transportation, hydropower infrastructure, information and communication, and equipment manufacturing, **all experienced a significant decline.**
- * In 2019, China's investment in consumer products and services accounted for 40% of its total investment in Europe.

Chinese investment in Germany (chinesische Investitionen in Deutschland)

ABBILDUNG 6: ADI-Bestände in Deutschland nach regionaler Herkunft, 2016 (in Prozent)

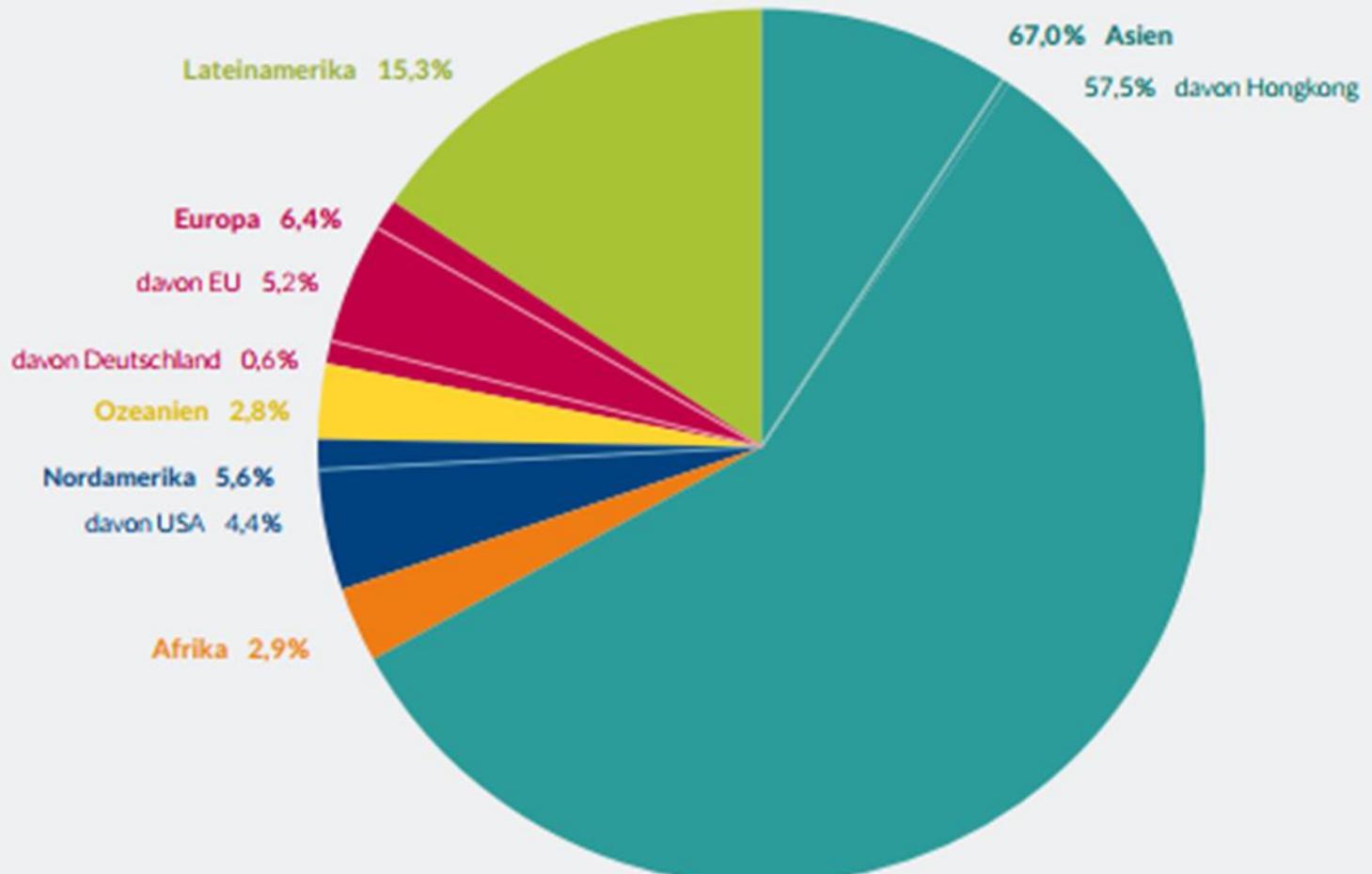


Anmerkung: Zugrunde liegen die unmittelbaren und mittelbaren Direktinvestitionsbestände (saldiert)

Quelle: Deutsche Bundesbank 2018

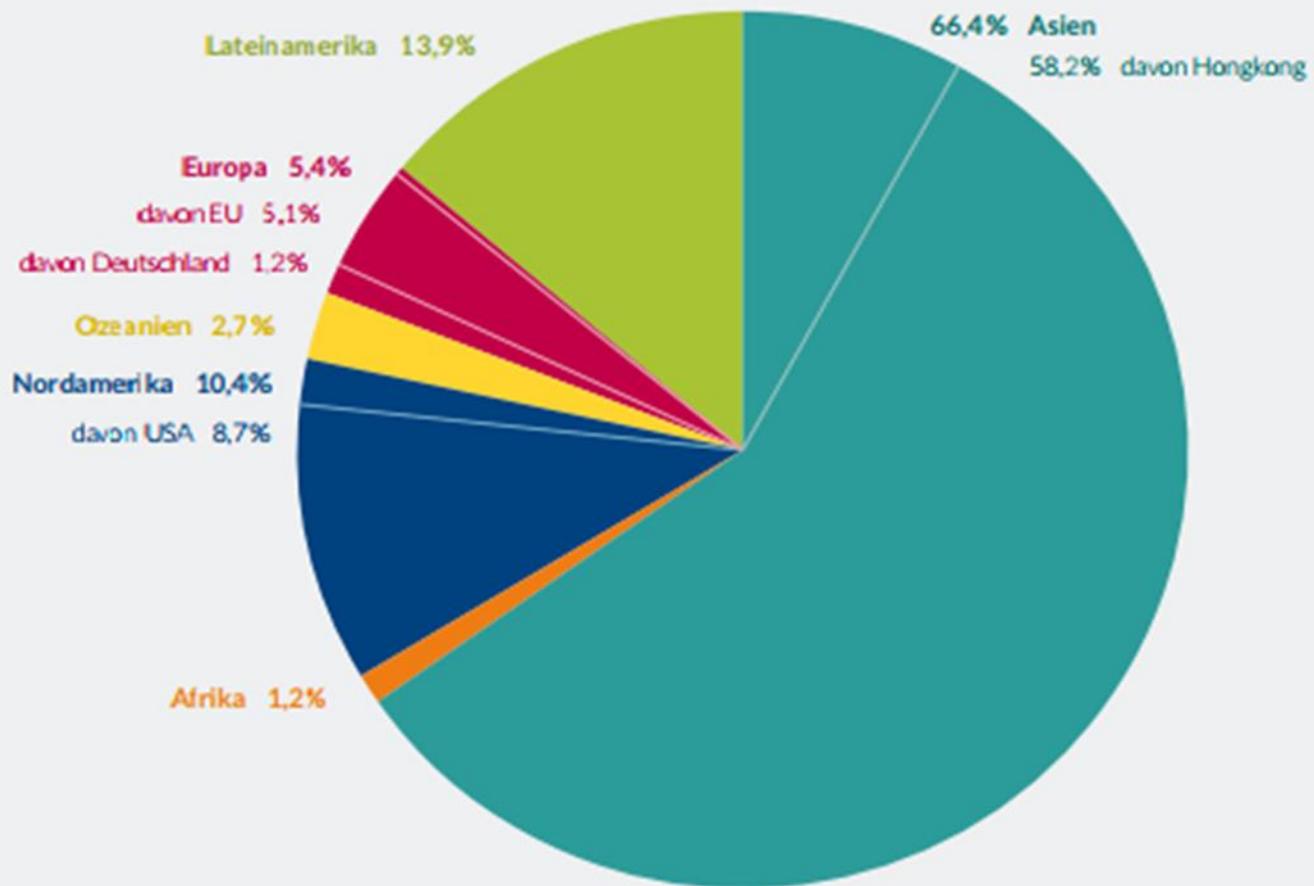
Chinese investment in Germany (chinesische Investitionen in Deutschland)

ABBILDUNG 5: Regionale Verteilung chinesischer ADI-Bestände, 2016 (in Prozent)



Chinese investment in Germany (chinesische Investitionen in Deutschland)

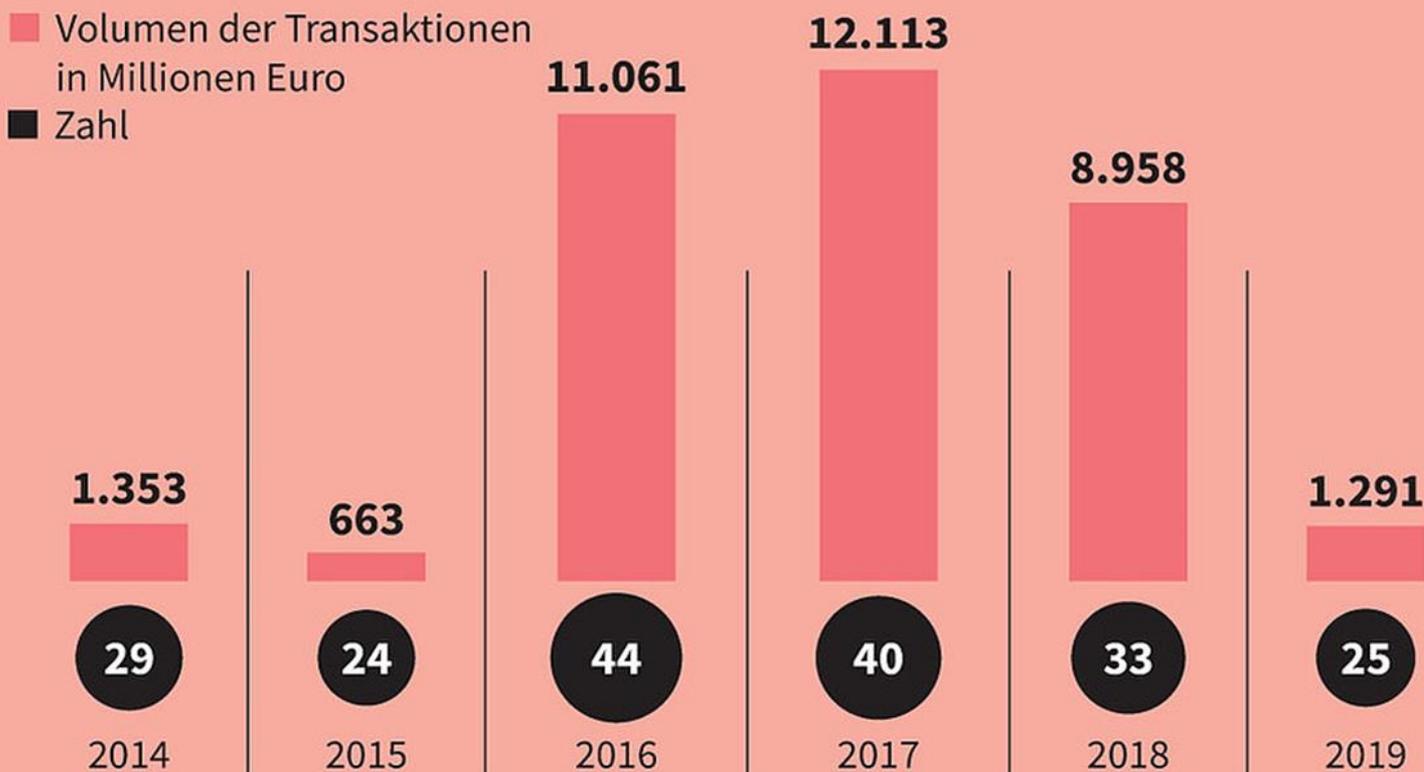
ABBILDUNG 4: Regionale Verteilung chinesischer ADI-Ströme, 2016 (in Prozent)



Chinese mergers and acquisitions of German companies (Chinesische Übernahme und Beteiligungen in Deutschland)

Chinesische Investitionen wieder rückläufig

Chinesische Übernahmen und Beteiligungen in Deutschland



Als Transaktionen werden Beteiligungen gezählt, bei denen der Investor mindestens 10 Prozent des Unternehmens erwirbt

Chinese mergers and acquisitions of German companies (Chinesische Übernahme und Beteiligungen in Deutschland)

Zahl chinesischer Übernahmen und Beteiligungen zwischen 2010 und 2019 nach Branchen in Deutschland



Als Transaktionen werden Beteiligungen gezählt, bei denen der Investor mindestens 10 Prozent des Unternehmens erwirbt

Quelle: Institut der deutschen Wirtschaft

© 2020 IW Medien / iwd

iwd

group

Reasons for reduced Chinese investment in Germany (Gründe für die Abkühlung der chinesischen Investitionen in Deutschland)

- The Strategy for the Reindustrialization of Europe
 - * Bilateral relations have transformed from cooperation to the coexistence of cooperation and competition.
 - The European side has also strengthened their review of foreign investment capital, and industrial security has become an important consideration.
 - * Germany introduced the concept of "systematic competition (Institutional competition)" with China
- Stricter capital control
 - * In recent years, offshore RMB liquidity has tightened, and China's foreign direct investment has shrunk.
- The EU follows the US policy of containing China.
 - * The EU is enhancing their mentality and taking more measures to guard against and constrain China.
- "Discriminatory" trade policy tools against China
 - The EU tries to exert greater pressure on China with a tougher stance and innovative policy tools.

German (European) related strategies and laws

In 2012, the European Commission issued The Strategy for the Reindustrialization of Europe, setting the goal of increasing its overall manufacturing value added as a share of GDP to 20%.

In April 2013, Germany launched the “Industry 4.0” strategy; in February 2019, the German Federal Ministry of Economic Affairs and Energy announced the National Industrial Strategy 2030 (Draft), which for the first time systematically proposed industrial policy ideas with obvious protectionist tendencies.

In 2017, the German government passed the amendment to the German Foreign Trade and Payments Ordinance and Germany became the first European country to tighten foreign investment policies. In December 2018, Germany revised its Foreign Trade and Payments Ordinance again to further strengthen its FDI national security review.

The EU FDI Framework Regulation came into effect on April 11, 2019 and was implemented on October 11, 2020. In March 2020, the European Commission announced a new industrial strategy.

Challenges facing further Sino-German/China-EU economic and trade cooperation (Herausforderungen der deutsch- chinesischen Kooperation)

- China's concerns:
- Trade disputes, 5G, foreign investment review, government procurement, competition policy, etc.
- German (European) concerns:
- Market access, intellectual property protection, mandatory technology transfer, subsidies from state-owned enterprises, a level playing field, labor regulations, etc.

Prospects for Sino-German economic and trade relations (Ausblick der deutsch-chinesischen Wirtschafts- und Handelsbeziehungen)

- Germany's reflections and adjustments:
 - * Tighter capital control
 - * Protective industrial policy
 - * Strong support for innovation, quest for industrial sovereignty and technological leadership, and protection of overall economic benefits.
- EU:
 - * Push “re-industrialization”
 - * Advocate foreign investment review framework
- International society (with China):
 - * Be wary of Chinese capital and technology but can't break away from China's huge market.

Prospects for Sino-German economic and trade relations (Ausblick der deutsch-chinesischen Wirtschafts- und Handelsbeziehungen)

- Sino-German economic and trade relations will be featured by the coexistence of competition and cooperation.
- * Cooperation between the two sides will continue to develop. Both sides have huge demands for each other and there is no possibility to end cooperation.
- Germany: heavily dependent on China's huge market; **Indo-Pacific strategy** needs more attention.
- China: Sino-German trade accounts for one third of China-EU trade; Germany is the main source of technology; Germany accounts for one-fifth of the European industrial chain
- * Competition will become fiercer. Germany and European countries will continue to guard against China.
- - Globalization, international gaming, industrial gap, internal integration, repositioning of international governance, etc.

Prospects for Sino-German economic and trade relations (Ausblick der deutsch-chinesischen Wirtschafts- und Handelsbeziehungen)

- Reasons for dynamic Sino-German economic and trade relations in the future
- 1. Both sides have a solid political foundation.
- 2. The national economy and trade between the two sides are highly complementary.
- 3. The high possibility of cooperation between SMEs.
- 4. The scale of service trade is small with broader prospects for cooperation. (less than 30 billion US dollars).
- 5. China has improved its legal conditions for trade. 2019.3. Foreign Investment Law
- President Xi: China and Germany share extensive common interests and have huge potential for cooperation in the areas of digital economy, industrial Internet, new energy vehicles, artificial intelligence, environmental protection, and third-party market.

A white, fluffy heart-shaped cloud is centered against a clear blue sky. The cloud has soft, irregular edges, giving it a natural, ethereal appearance. The blue background is a uniform, vibrant shade.

Herzlichen Dank!