

Germany**German exporters rethink €100bn 'love affair' with China**

Geopolitical tensions, zero-Covid policy and domestic competition endanger trading relationship



Germany's stand at a trade fair in Beijing last month. Germany and China once enjoyed one of the world's most mutually beneficial trading relationships
© VCG/Getty Images

Yuan Yang in Berlin and Alexander Vladkov in Frankfurt 7 HOURS AGO

For more than 20 years, Oliver Betz produced sensors for Chinese engine makers from his base in Munich. But in recent months, Systec Automotive's sales to China have collapsed, falling by three quarters.

“Expanding in China is not a topic under consideration. It's about how we can limit the damage,”

said Betz, who added that 65 per cent of his company's exports last year were to the country. He blames the decline on slower growth, Beijing's zero-Covid strategy and an increasing preference for buying local as Chinese manufacturers catch up with foreign brands.

Betz's experience is becoming more common among Germany's small and medium-sized enterprises, which are finding their relationships with Chinese partners tested after years of surging sales.

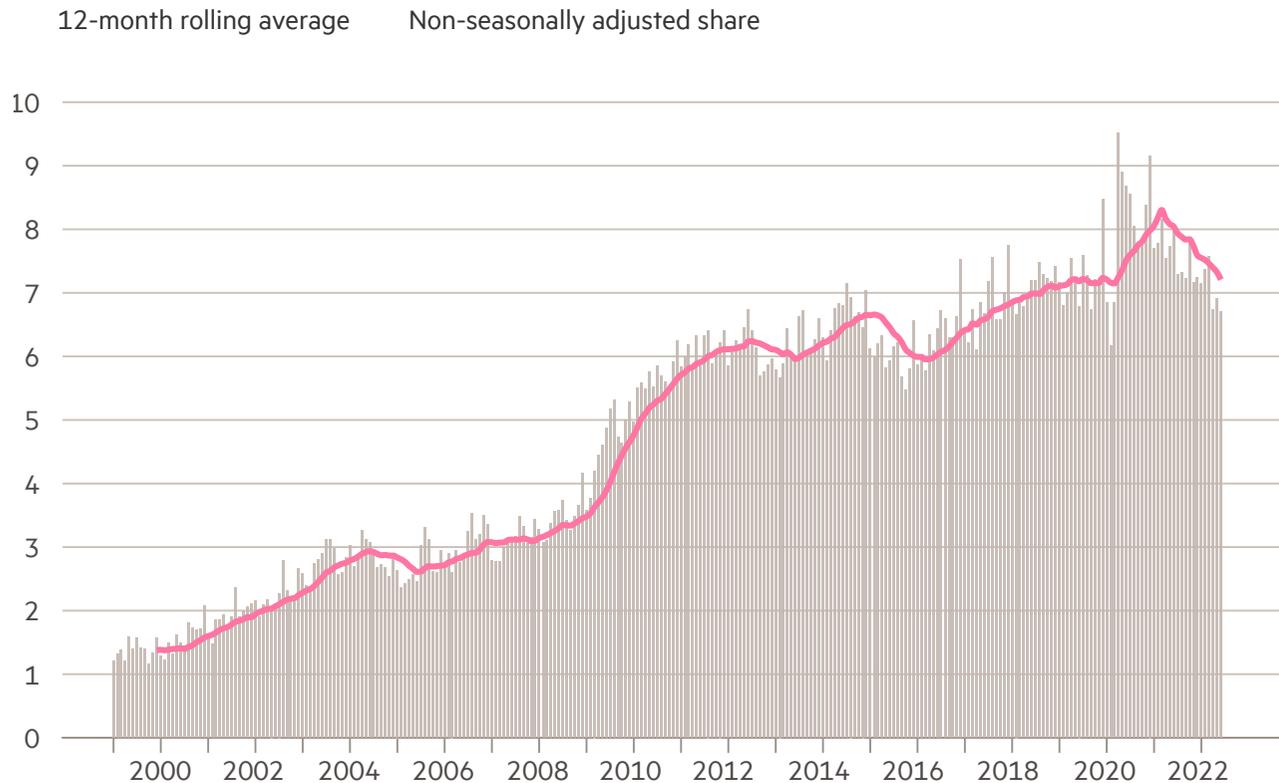
Germany's Mittelstand companies increasingly realise that they cannot rely on Chinese profits as they once did, according to Jörg Wuttke, president of the influential trade lobby EU Chamber of Commerce in China. "It's a lost love affair," said Wuttke.

The breakdown threatens to unravel what has become one of the world's most mutually beneficial trading relationships, in which German companies prospered by selling to Chinese exporters the machinery that enabled the latter to become key players in global supply chains.

Since the turn of the millennium, [China](#) has gone from accounting for just more than 1 per cent of German exports to commanding a 7.5 per cent share of sales abroad, putting it second to the US. In 2021, more than €100bn worth of German goods were sold there.

China has become a major destination for German exports

German exports to China as a share of total exports (%)



FINANCIAL TIMES

Source: IMF Direction of Trade Statistics

Thorsten Benner, director of the Global Public Policy Institute in Berlin, described the ties as the

main factor in the “golden age of the German economic model”, seen during the later stages of Angela Merkel’s 16-year reign as chancellor, which ended last year.

Alicia García-Herrero, a senior economist at think-tank Bruegel, said the buoyancy of the links between the two export powerhouses had been replaced by a sinking feeling in Berlin as exports slid. “[Germany](#) is losing its trade surplus and part of its competitiveness, partially because China has moved so rapidly up the value ladder,” she said.

It comes at a sensitive moment for the two countries’ broader relationship. Russia’s invasion of Ukraine has given fuel to China’s German critics, who argue that Germany’s economic ties are trumping foreign policy goals and leading to collaboration with prospective geopolitical rivals.

Olaf Scholz, who will fly to Beijing next week for his first meeting with Chinese leaders as German chancellor, is set to unveil his new China strategy next year. He is under pressure from his coalition partners, the Greens and the Free Democrats, to loosen ties.

Scholz courted controversy when he asked ministries to back an investment from Cosco, a state-owned Chinese shipping conglomerate, in a container terminal at the Port of Hamburg. The deal was [approved this week](#), though Cosco took a smaller-than-planned stake that would limit its capacity to influence decisions.

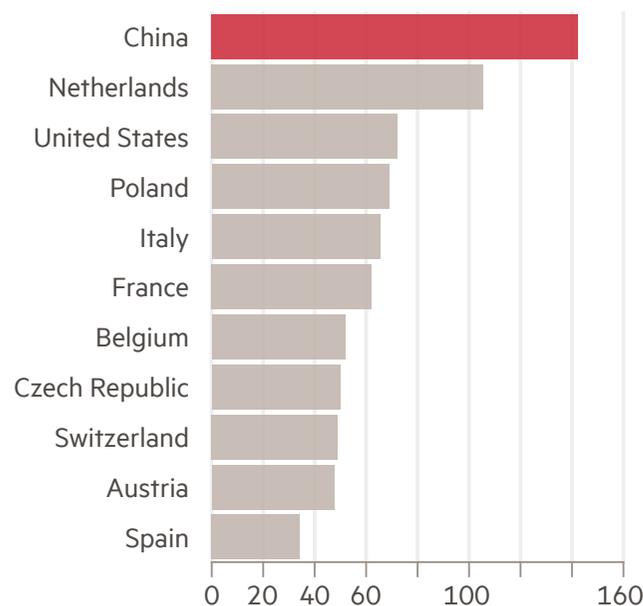
“The China strategy will include clear messages on the need to reduce dependencies and diversify supply chains and trading partners,” said Benner.

Berlin has signalled it will offer fewer guarantees to insure companies against political risks in China. Its due diligence law, which comes into force in January and makes larger companies responsible for monitoring human rights violations by their suppliers, could further dissuade German investment in China, which has become increasingly concentrated among carmakers Volkswagen, BMW and Daimler, as well as chemicals giant BASF.

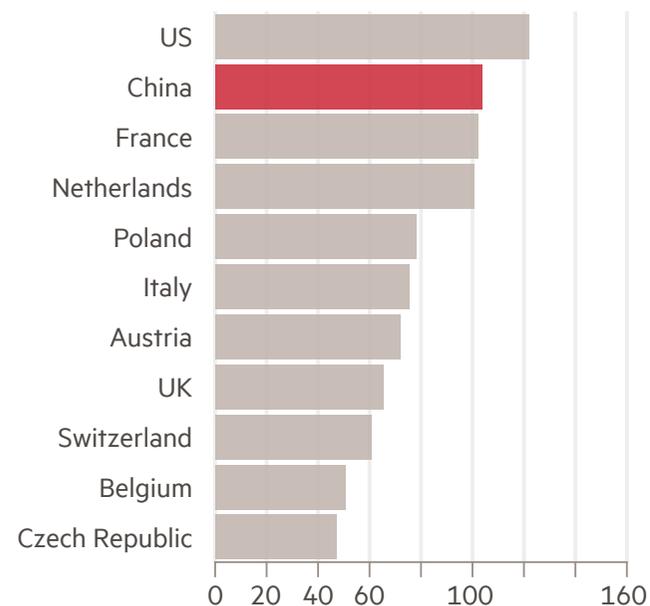
Germany depends on China as a top source of imports as well as exports

€bn 2021

Imports



Exports



FINANCIAL TIMES

Source: Federal Statistical Office of Germany

Responses to [atrocities in Xinjiang](#), China's western border region where the government has interned more than a million Muslims, have already hit sales. Sportswear manufacturer Adidas suffered Greater China sales declines of 15 per cent in two successive quarters last year after a [boycott over the company's decision](#) not to source cotton from the border region

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The war in Ukraine has focused companies' minds on the risk of sanctions should China invade Taiwan. US-China decoupling has led many companies to already look for alternative suppliers. Just over a third of members surveyed at the German machinery association VDMA in 2021 said the decoupling was prompting a rethink of their business links.

Magnetec, a Hesse-based electrical components manufacturer that has operated a factory in China for 13 years, decided against building a second plant in the country because of the risk of sanctions. "When our customers order our products, they give as a precondition that they are not built in China," said Marc Nicolaudius, Magnetec's chief executive. Instead, it will expand in Vietnam.

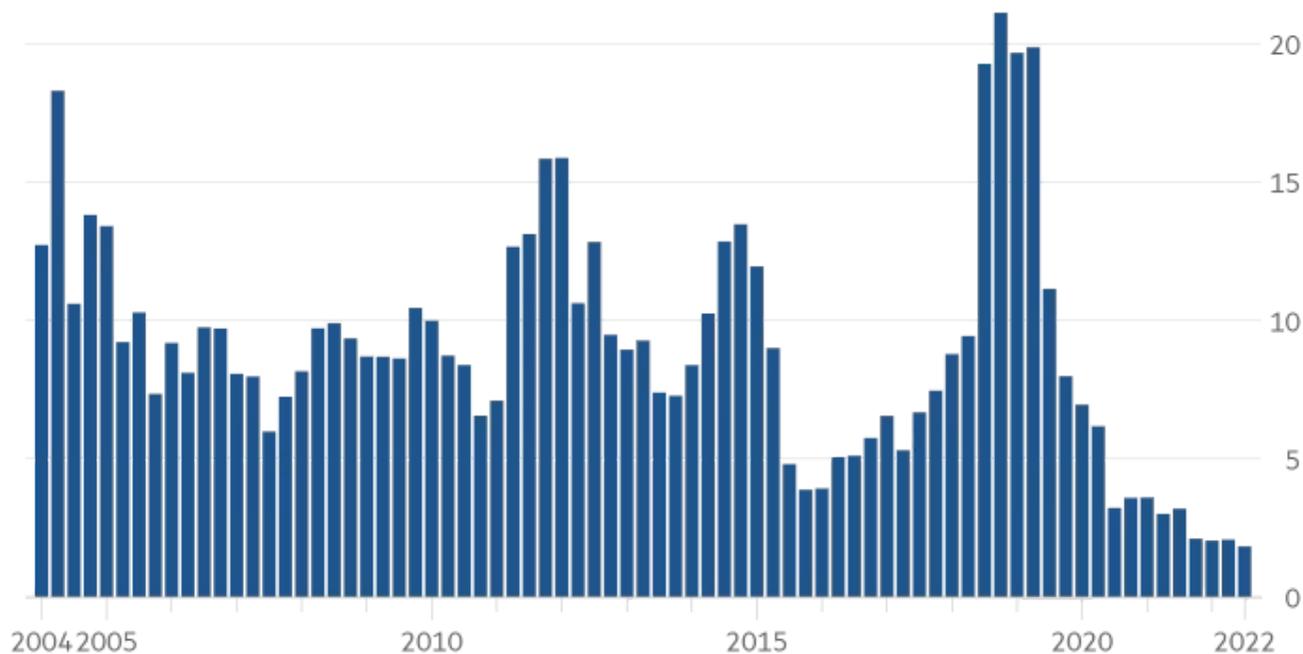
Noah Barkin, managing editor at consultancy Rhodium Group, said recent German investment in China had become "more defensive" and was being spent on [localising production and supply chains](#) to protect against the risk of tariffs.

Competition — fair and otherwise — remains a problem. "Our members know that every technology they bring into China, in a relatively short time, will be part of the Chinese market," said Ulrich Ackermann, head of foreign trade at VDMA. "We say, be aware you can be kicked out in a short time."

Ackermann spoke of a German construction machinery manufacturer whose state-owned Chinese rival sent machines to customers and offered them free for use for the first year. "How can we compete with that?" he said.

German direct investment into China tailed off during Covid

Greenfield FDI into China (\$bn), four-quarter rolling sum



Source: FDI Markets
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Amid this souring atmosphere, Chinese diplomats have pressured industry association leaders to refrain from criticising Beijing. One lobbyist recounts being told by a Chinese government official that its consumers could exert a lot of influence “if western companies don’t behave”.

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Despite all the tensions, many are not ready to give up. “China is a very important market for all of our members,” said Andreas Rade, managing director for government and society at VDA, the German carmakers’ association. “Exit cannot be the answer.”

But Barkin said the days of China being a “one-way bet” for German companies were done. “They are not pulling out yet, but they are looking at ways to shield their operations from geopolitical headwinds,” he said. “And some are now preparing for the day when they might have to leave.”

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