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To the point!

Cross-Asset- and Strategy-Research

Europe must abandon its naiveté on China

Do not lightly sell strategic infrastructure to Beijing

Yesterday, Chancellor Scholz flew to Beijing on a whistle-stop to visit China's newly crowned President Xi Jinping. He was accompanied by a German business delegation, even if it is somewhat smaller than usual. A suspiciously high number of board members of DAX companies reported "scheduling problems".

The headlines in the wake of the Chinese Communist Party Congress do not inspire hope. Instead of economic reforms and liberalization, China seems to continue to insist on its ill-advised zero-Covid policy. Instead of economic reforms, the focus is now on security and technological autarky.

The chancellor's visit is in itself to be welcomed. Of course, it is better to talk to each other than about each other. Whether talks in an increasingly isolationist China will be along the lines of "smile friendly, but let the message go in one ear and out the other" remains to be seen. Skepticism is in order.

Scholz's guest gift: that would not have been necessary!

Talking is good. But there's no need for gifts. Scholz has caused considerable consternation within Germany's ruling coalition. Against the express wish of his partners, he pushed through the approval of a minority stake of the Chinese state-owned company Cosco in a terminal in the port of Hamburg. What the motivation of Chancellor Scholz, a former Mayor of Hamburg, may have been is not entirely clear. The Ministry of Economics and the Ministry of Foreign Affairs, both run by Green Party politicians, were clearly against approval. Brussels also pleaded for strategic infrastructure not to be given out of hand.

In recent years, China has increasingly become a strategic rival. Beijing's doesn't usually conduct foreign investments taking



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Scholz's state visit to Xi Jinping is right

But this is not the time to weigh in politically to facilitate private deals in China

only financial considerations into account. Strategic factors dominate. That was the case with the Silk Road. And so it has been with the acquisition of a large number of port facilities in Europe. It is no longer just about the Greek distress sale of Piraeus.

Europe needs to reconsider its free-trade naiveté. The rules are changing. A partnership of equals requires a level playing field for all. Reciprocity should be a guiding principle. Only what European companies are allowed to do in China should conversely be allowed to Chinese buyers in Europe.

And strategic infrastructure must remain exempt. This includes the port of Hamburg. Otherwise we would have learned nothing from the Nord Stream debacle. Or from the disaster of the Russian management of German gas storage facilities by state-owned companies close to the Kremlin.

Diplomatic tightrope act

Under the coalition agreement, the chancellor has committed himself to a more values-oriented foreign policy. This has become even more important since the start of the war. But the baby must not be thrown out with the bathwater. China is of immense importance as a trading partner and investment location (see figure).

The art of German economic diplomacy will consist in not making oneself susceptible to blackmail, but at the same time keeping an eye on Germany's massive economic interests. If we give in too easily to Chinese demands, as happened in the case of the port of Hamburg, we will hardly succeed in this balancing act. Scholz, as the EU more broadly, will need to become more assertive and look beyond purely mercantilist objectives.

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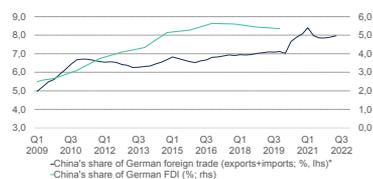
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China's share of Germany's foreign trade and FDI, in %



Source: Refinitiv, LBBW Research

Europe must rethink its trade policy naiveté
