Sabine Mauderer: Welcome note - Euro Finance Week - 10th China Day

Welcome note by Dr Sabine Mauderer, Vice-President of the Deutsche Bundesbank, at the Euro Finance Week - 10th China Day, Frankfurt am Main, 18 November 2024.

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Check against delivery

Ladies and Gentlemen.

I am delighted to be here today! I would like to underline the vital and close economic relationship between China and Germany.

In July, I was in China to visit my dear collegues from the People's Bank of China. This did not only emphasize our close ties with our colleagues at the PBOC. No, it was overall an enriching experience.

The hospitality and professionalism I encountered were truly impressive. I was particularly struck by the speed and innovation capacity demonstrated by the Chinese and international corporates I visited, both, in Beijing and Shanghai.

International corporates often referred to China as their "training or fitness centre".

Germany and China can look back on a long history of economic cooperation, marked by mutual respect and a shared commitment to the economic development of our countries. These close ties have contributed to growth, created jobs, and fostered innovation in both countries. Last year, the trade volume between China and Germany surpassed €250 billion.[1]

Naturally, in any relationship there are challenges that need to be addressed to ensure its continued success. I am strongly in favour of a rules-based approach that ensures a level playing field in international trade.

For this, but also generally, close dialogue and open communication are more important than ever. This holds especially in times where our economies are facing multiple headwinds and the global political landscape is increasingly uncertain.

In this context, allow me to emphasise today how important economic cooperation is for our shared future. As we all remember, we encountered hard times just a couple of years ago. Hard – yet insightful. I am referring to the COVID-19 pandemic.

1 A brief look back at a fragmented world – supply chains in the COVID era

I would like to elaborate briefly on how the COVID-19 pandemic exposed both the vulnerabilities of an interconnected global economy and its strengths. Global supply chains were severely hit, as production sites had to close and transportation and distribution across various industries came to a halt.

These disruptions had strong adverse effects on the German economy, which relies on efficient and smooth global supply chains. Supply shortages were particularly noticeable in electronic components such as semiconductors, household goods and construction materials.

Supply bottlenecks also occurred in China, where cars and their components, as well as machinery and industrial tools were affected.

Let us put some numbers to it. What did that mean for the German economy as a whole? Bundesbank analysts estimated that in April 2020, nearly one-quarter of the decline in production in Germany was due to supply chain disruptions related to China.[2]

This was because the manufacturing sector is highly interconnected through the trade of intermediate goods. For sure, the supply chain shortage had negative effects. And, based on this experience, it was rational for corporates to diversify risks connected to these supply chains.

Besides diversification, international cooperation also proved its benefits during the crisis and in its aftermath. Our economies were able to quickly provide the goods that suddenly found skyrocketing demand. Test kits, respirators, respiratory masks and vaccines all were produced in large scale and the world benefitted from that.

With its strong links between our countries, the German manufacturing industry was able to quickly adapt to the pandemic-related shifts in demand. So, despite the significant short-term consequences of the supply shortfalls in the early phase of the pandemic, the clear benefits of upstream integration are evident. Globally.

The abrupt interruption of supply chains during the pandemic was – after all – only temporary. It was, in essence, an unintended test for the global system.

2 Lessons for the future

What lessons did we learn?

The disruptions to global supply chains underlined the urgent need for strengthening resilience. Here, strong connections between our industries can be an important element. A fragmentation of the global economy has no winners. We all know that protectionism typically leads to a decline in growth.

And protectionism would be particularly harmful at a time when we in China and Germany are facing similar changes: We need to give our economies fresh impetus. Currently, growth rates in our economies are lower than they used to be.

With inflation pressures receding, the Eurosystem has lowered its deposit facility rate by 75 basis points to 3.25%. In China, the PBoC has lowered its key interest rate further and the 7-day reverse repo rate now stands at 1.5%. Longer-term interest rates have also come down somewhat in both currency areas.

Lower interest rates may provide short-term support. But they are no substitute for structural policy measures. To return to higher growth rates, innovations and digitalisation will be important factors. They provide opportunities for our two countries to increase efficiency and develop new business models.

As a central bank, we are committed to ensuring price stability. This is our best contribution to favourable economic conditions that in turn can be conducive to the free flow of goods, services and ideas. Indeed, price stability plays a key role. It is important because it preserves the currency's purchasing power, reduces economic uncertainty and creates a stable environment for investment and trade. Price stability also makes an important contribution to political stability.

As a contrast, global fragmentation increases the likelihood of future price pressures. If such pressures result in high inflation, this is a heavy burden, especially on low- and middle-income households. And it can lead to political instability – not least by influencing voter preferences.

3 Aim for resilience

Far-sighted policies aim at resilience.

During the pandemic, businesses and organisations have learned to become more flexible and resilient. They have adjusted their business models to better respond to unpredictable events, without abandoning their international focus.

Thus, as seen in the COVID example, resilience means a combination of strengthening our economies and preserving openness and international interconnectedness. And preserving a "level-playing field" in global trade where possible.

Let us continue to build on this foundation together.

4 Conclusion

Ladies and gentlemen,

I firmly believe that we have much to learn from each other and can greatly benefit from mutual exchange. At the same time our corporates are not only business partners but in part also competitors. That being said, we have to find a way to ensure competition is fair and beneficial for both sides. By combining our strengths we can create a sustainable and successful future together.

Our task in the context of constantly changing global conditions is to address challenges – together! – and to identify potential and opportunities for a sustainable and resilient future.

To this end, the common dialogue – like our's today – is invaluable!

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[1] The People's Republic of China is again Germany's main trading partner - German Federal Statistical Office (destatis.de)

[2] Bundesbank Monatsbericht Januar 2024.