

Germany's strategy towards China: a farewell to illusions

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On 13 July 2023, Germany's ruling coalition reached an agreement regarding the final wording of its 'Strategy on China'. This is the first such document in Germany's history, and negotiations lasted many months. Finally, it was unveiled by Foreign Minister Annalena Baerbock at the headquarters of the Mercator think tank. Over more than 60 pages the document presents an assessment of German-Chinese relations, a discussion of Berlin's values, interests and goals, as well as numerous sectoral analyses with special emphasis placed on the economy, the climate, security, human rights, development policy and the global order.

The text's central theme is that, following the period of 'reforms and opening up' in China initiated by Deng Xiaoping, the bilateral relations worsened. In line with the EU's official strategy, Beijing is referred to as a partner, competitor and systemic rival, and the aspect of rivalry is increasingly emphasised. The document contains highly critical comments regarding China's autocratic tendencies, human rights abuses, its violations of the rules of economic competition and aggressive foreign policy. The latter occurrence is particularly visible in the case of China issuing threats to Taiwan, supporting Russia and putting increasing pressure on its neighbours. Despite this, Germany emphasises that none of the major global problems can be solved without China, and therefore it is open to cooperation and calls on Beijing to live up to its global responsibility.

The main emphasis is placed on economic issues. Germany will seek to implement what is known as de-risking by limiting its excessive and overly risky economic dependencies. It also intends to diversify its economic relations by developing cooperation with other regions of the world in an attempt to counterbalance China's role. The German government also highlights the need to carry out Chinese investment screening especially in the field of critical infrastructure and cutting-edge technologies. At the same time, the document lacks unequivocal support for more far-reaching measures such as the supervision of investments carried out by German companies in China. Berlin intends to avoid measures which could suggest that it is interested in decoupling, in the sense of severing all ties with China.

Another important element of Germany's strategy involves combining it with the EU's joint policy towards China. Germany emphasises the need to coordinate its stance with that of its partners and to devise a homogeneous strategy. However, for this to be possible the decision-making process needs to be improved. This refers in particular to the reform of the majority voting system. Plans have been made to take the issue of the EU's joint China policy into account in the EU enlargement process: candidate countries will be required to

share the EU's approach on cooperation with China.

Commentary

- The strategy's key term is de-risking, which involves efforts to reduce the risk resulting from economic cooperation with China, mainly by blocking acquisitions in sectors such as critical infrastructure and important technology, and by diversifying trade exchange. This move is intended to neutralise a much more radical idea of decoupling in relations with China, which has e.g. numerous supporters in the Biden administration. However, its enforcement would be very costly for Germany due to its extensive cooperation ties with China. De-risking also envisages a cautious approach to boosting interventionism and the governments' impact on companies, which is what the European Commission endorsed in its 'economic security' strategy. The proposed solutions contained in this strategy include measures such as examining specific companies' exposure to 'Chinese risk', supervising their investments in China, blocking technology transfers and monitoring exports transactions. However, these are also included in the German document, albeit merely as 'topics for further discussion'. Germany's strategy, for its part, highlights the fact that companies are responsible for reducing their dependencies and warns that they will not be eligible for assistance from the German state in the event of a crisis, such as for example the invasion of Taiwan. In practical terms, de-risking includes activities which are the least costly in the financial aspect and the least confrontational in the political aspect. This is why it will likely receive support from those countries which are interested in maintaining their cooperation with Beijing. It should be noted that Germany has made every effort to promote it internationally.
- Germany's strategy on China is a clear shift from the policy pursued by Angela Merkel's governments, which viewed support for bilateral cooperation with Beijing, especially in the economic aspect, as an overriding priority. Since 2016, China has been Germany's permanent top trading partner and in 2022 trade between these two countries totalled €299 billion. More than 5,000 German companies operate on the Chinese market and the total value of their investments is more than €102 billion (in 2021). They mainly include fairly large businesses operating in the automotive and chemical sectors which view their presence in China as an issue of key importance from the point of view of global competition. The last decade has seen an increase in the engagement of Chinese business in Germany, for example in the high technology sectors, in particular in telecommunications, logistics and industrial production. Turning a blind eye to instances of human rights abuses and China's 'assertiveness' in international affairs was the political price paid for the dynamic development of this cooperation. In this context, Germany's unequivocal criticism of Beijing's actions and its emphasis on the growing rivalry in bilateral relations can be viewed as a breakthrough. It seems that the German elite has come to terms with the existence of political barriers to cooperation and has abandoned the hopes of achieving 'change through trade'. However, the final significance of the document will depend on its implementation – it cannot be ruled out that the strategy will remain a mere declaration of intent and will not translate into major actions.
- Devising Germany's strategy on China was a major challenge to the ruling coalition due to significant differences of opinion, mainly between the Greens and the SPD. Vice-Chancellor Robert Habeck's party (the Greens) called for a clear toughening of the

German stance on Beijing as regards political issues and for a reduction in economic dependence as soon as possible. The Social Democrats are much more cautious. Chancellor Olaf Scholz has repeatedly highlighted the economic cost of the potential severing of all ties with China and emphasised the need to cooperate with China in areas such as climate protection and international security. This approach was evident for example during his visit to Beijing in November 2022 and in the organisation of joint government consultations with Prime Minister Li Qiang's cabinet in June this year. In the context of these divisions and disputes within the government, the manner in which the strategy was unveiled is meaningful. The fact that it was announced at the headquarters of Mercator, a think tank known for its critical analyses of China, whose employees have been sanctioned by the authorities in Beijing, may be viewed as a gesture to satisfy the China hawks. However, the presence of just one federal minister at the event lowered the rank of this presentation. This was in stark contrast to the recent announcement of the National Security Strategy, which was attended not only by Scholz, but also by Interior Minister Nancy Faeser, Defence Minister Boris Pistorius and Finance Minister Christian Lindner. This formula may have been a diplomatic ploy intended to test how China will react to it. If this is the case, the chancellor could reserve the right to clarify or interpret the strategy's provisions at a later date.

- Germany's strategy on China may potentially become an important tool in shaping the EU's joint policy not only as regards the relations with Beijing. Berlin has emphasised that the document compiled by the government should be viewed as an element of Europe's response to the challenge posed by China. Moreover, it intends to consult its implementation with its EU partners. The document lists the following economic tools which could be used to strengthen Europe's position versus its global competitors: boosting the single market, completing the efforts to build a capital market union and a banking union, improving cooperation in the technology sector. However, the strategy also contains far-reaching political expectations. Germany argues that the problem with the coordination of actions towards China clearly demonstrates the need to reform the voting system and to increase the number of instances in which the non-veto majority method could be applied. Moreover, bearing in mind the prospect of EU enlargement, Berlin expects candidate countries to accept the approach to China developed at the EU level.
- Beijing was prepared for the publication of the German strategy and, following the first leaks to the press about its content in November 2022, launched a campaign to soften Berlin's stance. This campaign relied on diplomatic pressure (the Chinese MFA accused Germany of denigrating China and having a Cold War mentality) and economic pressure (a narrative laying out Germany's inevitable economic recession if de-risking is implemented). It also sought to exploit differences among the participants in the German domestic debate on cooperation with China. The Chinese media presented Chancellor Scholz as a pragmatic politician who separates political disputes from economic interests. His role as the guarantor of stable bilateral relations was allegedly corroborated by both his visit to China shortly after the 20th National Congress of the Chinese Communist Party and his decision to allow the Chinese COSCO company to purchase a stake in a terminal at Hamburg port. On the other hand, Foreign Minister

Baerbock and Vice-Chancellor Habeck came under open criticism from Chinese diplomats and the press. They were accused, among other things, of misinterpreting the China's intentions and of being pro-American.

- Beijing's reaction to the document was succinct and relatively conciliatory. The Chinese embassy in Berlin, later joined by the Chinese Foreign Ministry, announced that, although the document was ideologically motivated, there was still 'more room for cooperation than for rivalry' between Berlin and Beijing. The attitude of the Chinese authorities may be linked with their hopes for attracting German investments, which would be expected to help create jobs and boost technology transfers, as this is essential for the revival the Chinese economy after its disappointing post-pandemic recovery (see '[Disappointing post-COVID-19 recovery. China on the path of a protracted slowdown](#)').
- Beijing is aware of the special role played by German entrepreneurs (mainly from the automotive sector, which is crucial to the German economy) in the German domestic debate on cooperation with China. This is why it is using the 'carrot and stick' strategy in its dialogue with German business. On the one hand, Trade Minister Wang Wentao received a delegation of representatives of German business (including Karl Haeusgen, president of the German Association of Machine Manufacturers (VDMA), and Christian Klein, CEO of the IT company SAP SE) a few days before the publication of the strategy. On the other hand, China has hinted that it may use instruments of pressure against German business, as it has already done in the past when it launched trade boycotts against Australia, Lithuania and South Korea. Beijing has a number of tools at its disposal to influence German businesses; for example, it may use its dominant position in the supply chains of components for electric vehicles, have an impact on numerous joint research initiatives, and limit access to the world's main electromobility market (see '[Can the global battle for electromobility pose a threat to Central Europe?](#)').