

## Difficult partner, sly competitor, increasingly dangerous rival: the German policy towards China after 24th February 2022

The Russian large scale invasion against Ukraine on 24<sup>th</sup> February 2022 provoked a debate in Germany on the relations with China, which had become increasingly problematic over the past decade. Berlin wanted to stabilise relations with its closest economic partner, but at the same time Beijing's policies were becoming an increasing threat to Germany's interests globally

and domestically. The consequences of the Russian war in Ukraine for Germany's stability and the risk of a conflict in the Indo-Pacific region have forced Olaf Scholz's government to revise its policy toward the PRC. Berlin will therefore gradually reduce its trade dependencies, by encouraging entrepreneurs to move investments to other markets. The problem from the government's point of view is the unwillingness of large companies to withdraw from China, whose market generates a large part of their revenues.

Germany's goal is, before anything else, to reduce economic dependence and thus reduce the associated risks (so-called de-risking).

### Economy as the common ground

As with relations with Russia, there was a consensus among German political elites regarding relations with China. Both the Christian Democrat and Social Democrat-led governments considered maintaining and developing economic cooperation a priority. Even before the establishment of diplomatic relations between Bonn and Beijing in 1972, German companies were interested in the Chinese market, and direct and indirect trade had already been conducted in the 1950s.<sup>1</sup> Trade relations gained momentum in the 1970s, when the German and Chinese authorities signed a series of agreements on economic and technical cooperation, but they particularly intensified during the Gerhard Schröder government (1998-2005), when the number of bilateral visits between top-level politicians of China and Germany, accompanied by delegations of business representatives from both countries, increased. The tightening of relations was also certainly helped by German-French efforts to lift the arms embargo imposed on China after the 1989 Tiananmen Square massacre. Although the efforts were unsuccessful, they signalled Germany's position on the issue.

Angela Merkel continued the policy of close relations with Beijing, taking it to the next level in 2011. At that time, China joined the elite club of countries with which Germany holds intergovernmental consultations. As a result, every two years, representatives of the Chinese and German governments, headed by the PRC prime minister and the German chancellor, met alternately in China and Germany to agree on key priorities for cooperation. The culmination of the process of China's growing importance came when the PRC became Germany's largest trading partner in 2016. In addition, China's growing position in the region and expansion of its global influence argued that cooperation with the nuclear superpower and permanent member of the UN Security Council was essential to advancing Germany's economic interests on issues such as climate change. The focus on dialogue was also expected to be helpful in the face of Beijing's imperial ambitions in the Indo-Pacific.

The issue of human rights and systemic differences remained problematic in relations with Beijing. However, Germany tried not to single out these issues as one of the key points of the Sino-German dialogue. During the Schröder administration, a so-called "rule of law dialogue" was established. The formula was to allow discussions on problematic issues, such as human rights violations. This allowed this item to be "excluded" from official meetings and moved to the background.<sup>ii</sup> In 2007, Angela Merkel attempted to break with this praxis and highlight the importance of human rights in German relations with China. The meeting with the Dalai Lama (the first meeting between a German chancellor and the Dalai Lama) and her absence from the opening ceremony of the 2008 Summer Olympics in Beijing were to serve this purpose. However, the crisis, which occurred after the outbreak of the realignment with Beijing, quickly prompted Berlin to return to its previous practice of treating uncomfortable issues in its relations with China.<sup>iii</sup>

### **Increasingly problematic Cooperation**

Relations with China were not very controversial until increasing tensions began to arise in US-China relations. A discussion that began during the Barack-Obama presidency and fully developed after the 2016 Donald Trump's presidential election victory. Then Germany faced a dilemma between maintaining correct relations with China as its largest trading partner and the United States as the leading guarantor of Germany's security. The continuation of the U.S.-China trade dispute posed a serious threat to the world's largest exporters such as Germany. In this situation, Germany took the strategy of having its cake and eating one: Berlin tried to maintain the best possible relations with the Trump administration despite a number of differences, and to maintain smooth cooperation with China. How difficult this task was, was shown by the discussion over allowing Huawei and ZTE to build 5G networks in Germany: the consequence of ignoring US

intelligence reports about the PRC's use of Chinese companies for espionage activity put at risk further intelligence cooperation of both countries.<sup>iv</sup>

At the same time, China's policies were becoming a growing problem for Berlin. The Chinese aspirations to dominate the Indo-Pacific region, threatening the security of trade routes and the stability of supply chains both, were beginning to pose a direct threat to Germany's economic interests. Added to this were Beijing's disinformation campaign regarding the COVID-19 pandemic, the Chinese authorities' repression of Hong Kong, and the increasingly publicised massive human rights violations against national and ethnic minorities in China, especially against the Xinjiang Uyghurs. China's actions have posed an increasingly serious threat to Germany's own internal security.

### **What Zeitenwende means for the relations with China**

Although discussions regarding the need for changes in German policy toward China had been taking place long before February 24, 2022, it was only the Russian aggression in Ukraine that prompted a political consensus among Germany's mainstream political parties. The halt in energy imports, which posed a risk to the German economy and required the order of Olaf Scholz to rapidly seek alternative sources of gas, was tangible proof of what single-supplier supply dependence could lead to. Given the ongoing tensions in the Indo-Pacific, the scenario of an outbreak of conflict in the region is real, and the consequences could be far more severe than those Germany faced after February 24, 2022, as determined by Germany's level of economic dependence on China.

In 2022 alone, Germany's trade with China reached €298 billion. China was the largest importer to Germany (192 billion euros) and the fourth largest recipient of German exports (106 billion euros). According to an analysis by the Kiel Institute for the World Economy (IfW), Germany's particular dependence on Chinese imports is evident in the area of electronic products, with the authors of the analysis citing laptops as an example, where the combined share of imports from China and Taiwan is more than 85 percent. In the event of Taiwan's occupation, Germany would have to reckon with interruptions in the supply of chips, as Taiwan is one of its top producers (over 90% of the most advanced chips and over 60% of the world's semiconductors overall have been manufactured in Taiwan).<sup>v</sup> China is still an attractive investment destination for German corporations, especially in the automotive sector: according to the STATiSTA portal, between 2011 and 2022 some 36.6 percent of all vehicles from German automakers Volkswagen, Mercedes-Benz and BMW were sold in China.<sup>vi</sup>

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Economic relations with China involve more than just trade. Since 2010, Chinese direct investment in Germany is constantly growing. Just how controversial this issue is, is evidenced by the recent government dispute between the Ministry of Economy and Climate Protection led by Robert Habeck (Greens) and Chancellor Olaf Scholz (SPD) over the sale of a stake in the Tollerort trade terminal in Hamburg to the Chinese company COSCO. Ultimately, a 24.9 percent stake in the terminal was sold to the Chinese entity. What's more, in the spirit of the "Made in China" strategy, acquisitions of German companies mainly serve the purpose of acquiring technologies by China in order to have them replicated by Chinese entities, which could then sell them at competitive prices.

Admittedly, German political forces agreed on a consensus for a change in policy toward China, but had different opinions on the direction of that change. The clash has been observed mainly between the Greens in charge of the ministries of foreign affairs and economy and climate protection and the Chancellery. The former group advocated a tightening of German policy toward China while the Chancellery was more restrained, noting the risks flowing from relations with China, but advocating a more restrained stance. Thus, both the content of the security strategy and the strategy devoted to China testify to the compromise reached between the two forces in the German government. In both documents, China is described as a partner, a competitor and a systemic rival. At the same time, the German government is said to recognise that "elements of rivalry and competition have taken a turn for the worse in recent years"<sup>vii</sup>. Thus, Germany has once again (as it did in the 2021 coalition agreement) inscribed relations with China in the triad coming from the European Commission. Both documents also note that China remains an important partner in addressing global issues.

Germany's goal is, before anything else, to reduce economic dependence and thus reduce the associated risks (so-called de-risking). This is to be helped by diversifying supply chains, reducing the risks associated with German companies' exposure to the Chinese market, strengthening investment and export controls, and combating Chinese disinformation. The asymmetrical nature of the German-Chinese relationship, which is particularly evident in German companies' problems with access to the Chinese market, also resonates quite strongly in the strategy. The document also heavily bumps up the issue of the need to respect human rights, and changes in Chinese policy are described as affecting the quality of Sino-German relations. It is also noteworthy that a separate chapter has been devoted to German involvement in adapting EU policy to the challenges posed by Chinese policy.

### Conclusions:

1. Because of economic ties, Germany wants to avoid weighing a sudden cut in relations. The concern is about Beijing's reaction. Hence, those in power are avoiding the word decoupling which also functions in the debate about relations with China. Germany wants to spread the process out more over time. It will also be accompanied by expanding relations with Asian, African, and South American countries as potential alternatives for German companies. It will be important for the government to convince major German companies, to diversify their investments more, which, however, given their reluctant reactions, may be problematic. At the same time, the blocking of Chinese investments in two domestic semiconductor manufacturers Elmos in Dortmund and ERS Electronic, demonstrates the government's reluctance to allow Chinese capital into sensitive areas of technology and the economy.
2. It is possible that Germany will use the EU legal framework to avoid single handedly introducing measures that could sour relations with China. An example is the debate on screening Chinese investments in Europe: it is possible that Germany will eventually support this procedure despite the concerns of business representatives. The skepticism of the SPD and FDP (the Greens would be in favor), may overcome the effective functioning of the mechanism in the US introduced in early August.
3. From Germany's perspective, the China strategy is also a way to establish credibility among allies: Chancellor Angela Merkel was one of the main supporters of the controversial investment agreement with China. After the full scale Russian aggression on Ukraine, Germany wants to show both its EU and U.S. partners that it is aware of the threat posed by its current economic ties and does not want a repeat of the scenario with Russia. Maintaining a military presence in the Indo-Pacific region and the participation of German troops in regional allies' exercises are also intended to lend credibility.

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<sup>i</sup> E. Louven, Bilaterale Außenwirtschaftsbeziehungen zwischen der Volksrepublik China und der Bundesrepublik Deutschland, Osteuropa, Vol. 38, No. 7/8, Politik und Wirtschaft zwischen Ost und West: Zum 70. Geburtstag von Otto Wolff von Amerongen (Juli/August 1988), pp. 767-779

<sup>ii</sup> . Huang, Werte oder Interessen? Maximen deutscher und europäischer Chinapolitik, Die Bundeszentrale für politische Bildung, 12 February 2021, [www.bpb.de](http://www.bpb.de).

<sup>iii</sup> L. Gibadło, A dangerous resemblance. Moves to revise Germany's China policy, Centre for Eastern Studies, 19 October 2021, [osw.waw.pl](http://osw.waw.pl).

<sup>iv</sup> Federal Office for Information Security (BSI) has been examining all critical parts of Huawei and ZTE for several months now. At the end of August, a comprehensive report should appear, on the basis of which the responsible ministries will decide which components can be used and which cannot. See: T. Giersch, Highspeed-Netz 5G Was das Huawei-„Armageddon“ für den Ausbau unserer Mobilfunknetze bedeutet, Focus, 27 July 2023, [focus.de](http://focus.de).

<sup>v</sup> L. Gibadło, P. Uznańska, TSMC will build a factory in Germany, Centre for the Eastern Studies, 9 August 2023, [osw.waw.pl](http://osw.waw.pl).

<sup>vi</sup> Anteil der in China verkauften Personenkraftwagen am Gesamtabsatz deutscher Automobilhersteller von 2011 bis 2022, Statista, March 2022, [de.statista.com](http://de.statista.com).

<sup>vii</sup> Strategy on China of the Government of the Federal Republic of Germany, German Ministry of Foreign Affairs, 14 July 2023, [auswaertiges-amt.d](http://auswaertiges-amt.d).