



**POLITICAL
INTELLIGENCE**

Germany's First China Strategy - Heavy on Risks but Light on Policy

by Tarik Oran

July 2023



Introduction

Germany's first China strategy, published on July 13, 2023, points out various economic and security related risks Berlin sees in its relationship with China in starker terms than ever before. The strategy states unequivocally that the country needs to change its approach to the Asian giant accordingly. However, while aligning itself with the European Union's "de-risking" drive to reduce economic dependencies on China and its classification of the country as a "partner, competitor and systemic rival", the eagerly-awaited paper does not follow through with any new binding policy measures. Instead, the German government's strategy sets out some commitments to explore certain responses and calls for companies to manage their exposure to Chinese risks themselves.

Nevertheless, stakeholders and analysts said the strategy, which was delayed following significant debate within the governing three-party coalition, helps to shed light on how Germany views its biggest trading partner at a time of increased concern in the West about China's growing assertiveness. Business groups welcomed the focus on de-risking rather than decoupling from China which remains an important market for many German companies. But others said the document lacked detail on implementation or on the trade-offs involved, while the Chinese embassy in Berlin warned that a strategy based on an ideological view of China would damage cooperation and mutual trust.

This Dods Political Intelligence report, written by our German-language monitoring team, provides an overview of Germany's inaugural China strategy, including key elements and context, along with a selection of political and stakeholder reactions with links to original sources.

Overview

Germany's first [Strategy on China](#) document leaves no doubt that the coalition government led by Chancellor Olaf Scholz believes Beijing's increased global assertiveness requires a new policy approach. "China has changed. As a result of this and China's political decisions, we need to change our approach to China," it says. The 64-page document, prepared by the Federal Foreign Office, sets out the government's view of the status quo and future prospects of relations with China, Germany's largest goods trading partner, and how it aims to work with Beijing in a way that protects its security and prosperity.

In keeping with the European Union's stated approach towards China, as well as with the German government's recently released [National Security Strategy](#), the document simultaneously classifies China as a "partner, competitor, and systemic rival". The German approach is firmly aligned and designed to support the EU's so-called de-risking strategy (explained in this Dods Political Intelligence [report](#)), which aims to reduce Europe's economic dependencies on China but not decouple from the country, as outlined by European Commission President Ursula von der Leyen in March 2023. The drive to diversify supply chains in critical areas was further fueled by the experience of Russia's invasion of Ukraine which forced Germany to rapidly find alternatives to the Russian gas it was overly reliant on for energy. At the launch of the strategy, Foreign Minister Annalena Baerbock said Germany must focus more on its economic security, "[...] and that means, above all, minimising cluster risks that affect not only individuals, but an entire economy. That's why companies that are highly dependent will have to bear more of the financial risk themselves in future." The strategy's clear criticisms of Chinese economic and security practices also mark a break with the more emollient approach of former Chancellor Angela Merkel that grew increasingly out of step alongside faltering US-China relations in the latter stages of her term in

office. In terms of Germany's position in the rivalry between Washington and Beijing, the document says the Chinese market continues to be of great importance and stresses the need for dialogue whilst also describing the close partnership with the US as being of "tremendous importance".

The SPD, Greens and FDP parties had agreed to develop the China strategy in their coalition agreement in autumn 2021. However, the publication of the strategy was delayed by disagreements between Chancellor Olaf Scholz, from the Social Democrats, who urged a cautious approach, and more hawkish positions held by Minister Baerbock and Economics Minister Robert Habeck from the Greens. Scholz laid the groundwork ahead of a trade trip to Beijing in November 2022 when he said, "We don't want to decouple from China, but can't be over reliant," and then [said](#) in late June that it was the responsibility of companies not countries to de-risk. By contrast, on her visit to Beijing in April 2023, Baerbock argued that while China was seen as a trade partner, competitor and a systemic rival to Germany, "the systemic rivals aspect is increasing more and more," and consequently endorsed minimising risks instead. But Germany's strong business links with China and Scholz decision to travel with a contingent of German businesspeople rather than on a joint trip with French President Emmanuel Macron had raised fears that Germany could be the weakest link in the EU's de-risking drive. Chinese state-owned company Cosco was also given a green light to take a minority stake in [a container terminal](#) in the port of Hamburg despite strong opposition from the Greens.

While the new China strategy does not have the force of law, it sets out the German government's view on the current state and future relations with Beijing across three dimensions: bilateral relations, strengthening Germany and the EU, and international cooperation.

Here are some key points raised in each:

Bilateral Relations with China

- Exchanges in some sectors with China have declined, leading to a "growing asymmetry" in relations.
- The greater role played by the Communist Party of China and focus on security and stability have been accompanied by backsliding on civil and political rights. Germany cannot ignore the changes in China's policies, "they affect the quality of our relations".
- Germany is committed to continuing dialogue formats to discuss issues including foreign affairs, finance, security, and climate and transformation. The human rights dialogue has fallen short of expectations.
- Germany is applying export control procedures to ensure that German products are not misused for human rights violations and internal repression in China.
- Germany is not aiming to decouple from China and wants to preserve close economic ties, but also become less dependent in critical sectors to reduce risks they entail.
- China has exploited other countries' dependencies, and the situation in the Taiwan Strait shows the vulnerability of supply chains, particularly on semiconductors.
- German companies face disadvantages in China due to restricted market access, exclusion from public procurement, and unequal competition including from subsidies, forced knowledge and technology transfer, and product piracy. The government will provide political support for German firms affected.

- Germany and China have a common interest in creating sustainable and robust global logistics chains. In doing so, the German government will focus on the principle of reciprocity.
- Climate action will be a focus of bilateral cooperation, including an “intensive dialogue” with China on phasing out coal and pursue more ambitious targets in reducing its greenhouse gas emissions.
- China is seeking to achieve market and technological dominance in green technologies, creating dependencies in critical areas such as photovoltaics. In response, Germany is strengthening Europe’s production capacities and diversifying sources of supply.

Strengthening Germany and the EU

- Systemic rivalry with China requires new efforts in Germany and the EU to strengthen the economy, competitiveness, and technological sovereignty, including supporting a location policy that promotes growth, research, and innovation.
- Strategies and statements by the Chinese leadership indicate China is seeking to achieve economic and technological dependencies to use to assert political objectives and interests, while citing security interests to make itself more independent from outside contributions and supplies.
- De-risking and diversifying supply chains is necessary in Germany and Europe. In the case of China, there are dependencies in various metals and rare earths, lithium batteries and photovoltaics, as well as veterinary drugs. The government will analyse critical dependencies on an ongoing basis and support an EU-wide monitoring system.
- The EU must not become dependent on technologies from third countries that do not share the same fundamental values.
- In the context of digital research and innovation promotion, the government will issue provisions so that projects with China in which knowledge drain is deemed likely are not supported or only supported with suitable conditions.
- In response to China’s strategic approach to standardisation of technology, the government will strengthen the involvement of German stakeholders on international bodies and work to ensure the participation of German firms in China.
- The Chinese market continues to be of great importance.
- Companies must take geopolitical risks into account in their decision-making and bear the costs of concentration risks so that state funds do not have to be tapped into in the event of a geopolitical crisis. Government uses market economy instruments to change the incentive structure for German companies to make removing unilateral dependencies more attractive.
- Government is assessing export credit guarantees from the point of view of avoiding unwanted technology transfers, particularly for sensitive dual-use technologies and those used for surveillance and repression.
- Government will have confidential discussions with companies that are particularly exposed to China-related risk to identify them in good time and consult on whether existing instruments should be further developed.
- Germany supports further development of EU’s trade policy instruments, including the bloc’s anti-coercion instrument. A modern competition law is needed to enable European firms to compete with subsidised Chinese companies.

- Germany will intensify exchanges on screening Chinese direct investment with the EU and US to identify new investment strategies in strategically important sectors in good time and coordinate approaches accordingly.
- The government is promoting close coordination in the EU as well as strengthened cooperation in the field of export controls between the G7 and further partners.
- Government will define which sectors, companies and institutions are part of critical infrastructures by means of an umbrella law, and will swiftly conduct an assessment of the effectiveness of security regulations to date and, if necessary, amend the respective legislation.

International Cooperation

- Germany wants to maintain and intensify good relations with all countries in the world, in particular those that seek to protect the rules-based international order.
- Both the transatlantic alliance and close partnership with the US, including in the G7, is of “tremendous importance” for the EU and Germany.
- Germany is campaigning for a transatlantic trade agreement that would eliminate industrial tariffs and mutually recognise transformative technologies, and the EU-US Trade and Technology Council is playing an important role.
- Germany and the EU have a strong interest in close economic, foreign-policy and security-policy partnerships with countries in the Indo-Pacific region, as well as in open shipping routes.
- Taiwan is important for Germany both as a location for German firms and as a trade partner. Germany supports issue-specific engagement by Taiwan in international organisations, in line with the EU’s so-called One-China policy. Germany believes the status quo in the Taiwan Strait may only be changed by peaceful means and mutual consent, and any military escalation would affect German and European interests.
- Germany calls on China to give up the privileges under World Trade Organization (WTO) rules it was granted as a developing-country.
- Germany increasingly views China as a geopolitically significant security policy actor that is building capabilities and acting in a way that also affects the security interests of Europe.
- China’s relationship with Russia, in particular since Russia’s war against Ukraine, is an “immediate security concern” for Germany. Chinese arms deliveries in connection with Russia’s war would have an immediate impact on relations between the EU and China and on bilateral ties. Germany urges China to declare its opposition to Russia’s war.

Reactions

The following section provides summaries and excerpts of reactions to the China Strategy by lawmakers, stakeholders, and experts, including hyperlinks to sources.

Chancellor **Olaf Scholz** [said](#) on Twitter that the strategy gives the Sino-German relations a new framework. “We always address critical issues such as human rights, the rule of law and fair competition...The goal is not to disconnect us. However, we want to avoid critical dependencies in the future. With #ChinaStrategie we are responding to a China that is changing and taking a more

offensive stance. For us, the following applies: China is and will remain a partner, competitor, and systemic rival."

Federal Foreign Minister **Annalena Baerbock** [said](#), at the launch of the strategy at the MERICS-Institute in Berlin, that it addresses the challenges "that have arisen from China's behavior over the last 10 years. And we are showing ways and instruments how Germany can cooperate with China in the heart of Europe without endangering our free democratic basic order, our prosperity and our partnership with other countries in this world." She added: "At the same time, we are showing that we are realistic, but not naïve."

The **Chinese Embassy in Germany** [said](#) in a statement that "Perceiving China as a 'competitor and systemic rival' ignores objective facts such as the common interests of both countries. An ideological view of China and a strategy towards China formulated on this basis will only exacerbate misperceptions and misjudgments and damage cooperation and mutual trust. China is Germany's partner in overcoming challenges and not a rival...'De-risking' based on ideological bias and fear of competition is counterproductive and will only artificially increase risks...what China and Germany should do is promote de-risking in bilateral relations."

Johann Wadephul MP (CDU) [said](#) the strategy falls short when it comes to spelling out "de-risking" in concrete terms and clearer guidelines for the German economy were needed. He added that the government had presented the strategy halfway through the legislative term and at the beginning of the parliamentary summer recess, "so we cannot debate the strategy in parliament - where the debate belongs in order to achieve a national consensus."

Petr Bystron MP (AfD) [stated](#) that the strategy is worrying in several respects as it is an attempt to impose "green-woke ideology" and US geopolitical interests under the guise of a strategy for German foreign policy.

Sevim Dagdelen MP (The Left), [said](#) that the strategy aims at destroying economic relations with Germany's largest trading partner and will end up with high costs for the population. According to Dagdelen it is irresponsible that after the ruinous economic war and sanctions against Russia, the government is now opening a second front against China in close allegiance to the US confrontation course.

German Chamber of Commerce and Industry (DIHK) President Peter Adrian [called](#) the "de-risking" strategy a good approach. Nonetheless, he criticised the lack of clear measures and instruments to support this supposed diversification. The opening up of new sales, procurement or investment markets is associated with costs for the German economy, said Adrian.

Hildegard Müller, President of the **German Association of the Automotive Industry (VDA)**, [said](#) that Europe must confidently use its foreign trade instruments, but must not fall into increasing protectionism. China is a fundamental sales and future market of decisive importance for a successful transformation. "The fact that the German government rejects decoupling in its strategy and has agreed on a de-risking approach is therefore fundamentally correct", Müller said.

The Federation of German Industries (BDI) President Siegfried Russwurm [welcomed](#) the strategy of "de-risking" instead of "decoupling." From the industry's point of view, it is particularly important that the strategy also emphasises the strengthening of their own competitiveness. "In the long term, the decisive factor in competition with China is how well we are positioned offensively", said Russwurm. Europe as a business location must not only become more resilient, but it must also

become more attractive and dynamic. Accordingly, only as a strong single market and global innovation driver is the EU able to deal with China in a self-determined manner.

Managing Director of the **German Chemical Industry Association (VCI)**, Wolfgang Große Entrup, [said](#) in light of the strategy, that Germany has to strengthen its domestic industrial base. "Germany is an important player, but only a united Europe can meet China at eye level" In this respect, a national China strategy can only be a first step. Große-Entrup proposed a regular intimate exchange between politics and business on geopolitical and security issues as its more important than ever.

The **German-Chinese Business Association (DCW)** [published](#) a statement advocating for open borders, the unhindered exchange of goods and services and respectful interaction between market partners. Especially in view of the fundamental changes in international structures, it is important to continue to engage in good dialogue and profitable exchange. In solving global challenges, the People's Republic has become too important an economic player to be ignored, thanks to its various initiatives. Overall, it is important for companies from both countries to broaden their field of vision and minimise risks in their own business. The DCW emphasize however, that risk minimisation should also not be overemphasized, or else it will quickly be understood in China as a synonym for decoupling.

Center for Strategic and International Studies (CSIS) fellow **Lily McElwee** and senior fellow **Ilaria Mazzocco** wrote in a [commentary](#) "The devil will be in implementation. As some experts have pointed out, Germany will face potential trade-offs as it seeks to advance its various priorities—including combating climate change and reducing dependencies on China for critical minerals. Nonetheless, the publication of the China Strategy indicates that Europe's largest economy is adjusting its position and terms of engagement with China in ways that are likely to benefit the transatlantic relationship.

Jörn Fleck, senior director of the Atlantic Council's Europe Center, [said](#) "The strategy acknowledges that "China has changed" and, along with it, German policy toward China must change, but fails to translate this into sufficiently specific or ambitious policy proposals...At the same time, a closer look reveals some important progress. Berlin's China strategy avoids some of the biggest mistakes of its recently released national security counterpart. Most notably, it makes a more explicit assessment of the strengths and assets Germany can bring to bear in a more contentious Sino-German relationship."

Noah Barkin, Senior Advisor at Rhodium Group, [said](#) on Twitter "Germany has sent an important signal with its new China strategy. Now for the hard part: implementation of de-risking."

Thorsten Benner, co-Founder & Director, Global Public Policy Institute, [said](#) on Twitter, "Germany's China strategy is a much needed first class funeral for Merkel's delusions of 'comprehensive strategic partnership'. It offers a largely unvarnished take on realities of Xi's party state and a pretty ambitious agenda for pursuing interests vis-à-vis China more effectively."

Tarik Oran is a political consultant at Dods Political Intelligence's German monitoring service covering general affairs and transport policy.



About Dods Political Intelligence

Dods Political Intelligence provides political monitoring of Germany and France in their respective native language.

In Germany, the team covers Bundestag, Bundesrat, Federal Ministries, Political Parties, Trade Associations, NGOs and Corporations. In France, the team covers the French Government, Parliament, Public Agencies, Political Parties, Unions, NGOs, and Think Tanks.

Contact Us

For further information and to book a free trial, please visit dodspoliticalintelligence.com or contact us at customer.service@dodsgroup.com +32 274 182 30