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# Germany's strategy on China - the end of an era that was marked by economic dependence



Germany views China as a "partner, competitor, and a systemic rival", following the definition of relations with Beijing widespread in Europe.

However, Berlin's new comprehensive strategy on China hints that one part of this current trinity will have to take precedence over the other two regarding mutual relations: the one about China as a "systematic rival".

Olaf Scholz's government document is primarily a national strategy, with economic issues at its core, around which other interests and policies have been built ("Protecting our natural resources is a priority of all our policies, including foreign policy".)

However, this strategy will inevitably set the tone for the future shared policies of the EU towards China, given Germany's leading economic and political position within the bloc, but also for many national strategies of EU members towards Beijing.

In this respect, the Berlin paper goes beyond the framework of Germany and its interests. The projections of Berlin's future position towards China will inevitably spread throughout the EU as a standard.

"The Federal Government has a special responsibility for asserting European economic interests precisely because Germany is closely interconnected with China", says the Berlin strategy, confirming that this document has no wish to remain only German.

## Risks in the spotlight

Olaf Scholz's coalition government has taken a far more cautious and risk-oriented approach

to China than previous governments.

The introductory assessment in the strategy says, "China has changed. So, we need to change our approach to China too". The change calls for caution, reducing risk and the existing imbalance (in the economy).

This is in line with the European and American approach, which want "de-risking" regarding relations with China, not "decoupling". But, no matter how reassuring it sounds (particularly for Beijing), this approach cannot last, and the German strategy recognises this.

For many business arrangements, "de-risking" will inevitably turn into "decoupling", bearing in mind China's aggressiveness in economic expansion and the crises it generates in supply chains.

The cost of insecure supply chains and their frequent and unpredictable disruption is becoming greater than the benefits they have brought for years. Safety becomes more valuable than profitability.

The new and perhaps most significant part of the German strategy concerns the risks that cooperation with today's China, which has global economic, technological and political ambitions, carries.

## Worrying dependence on China

In addition to the risk of instability in production flows, Berlin has devoted much attention to the growing dependence of its economy on China. The strategy warns in many parts that this dependence must be reduced.

The head of German diplomacy, Annalena Baerbock, made a direct connection between the projections of future relations with China and Germany's bitter experience with Russia and dependence on its energy sources.

“We simply can’t afford to do a second time what we had to do as a result of the Russian war of aggression, namely spending over 200 billion euros across the whole of society to free ourselves from a dependency”, said Baerbock.

In a worst-case scenario of getting rid of dependence on China, which she cautiously mentioned, Germany would suffer greater damage than when separating from Russian energy sources.

The volume of trade last year was a record €300 billion. While China's dependence on the European and even German markets has been constantly decreasing, the German economy has been tied to partners from China, as the largest single trading partner.

This imbalance of dependence is, in fact, in China's strategic interests . “China’s economic strategy aims to make it less dependent on other countries, while making international production chains more dependent on China”.

## The end of Angela Merkel’s era

This is why the Scholz government's document also marks the end of a long era of relations with China created by Angela Merkel's policy, focused exclusively on the idea of China as a huge market and production potential where parts of the German economy were left unprotected.

This long-standing approach has resulted in more than a million jobs in Germany directly dependent on Chinese investment and many more indirectly.

Half of all Chinese investments in Europe are located in Germany, with half of German manufacturing companies relying to some extent on Chinese partners in their supply chains.

The departure of Merkel, and numerous crises

in the functioning of supply chains during the pandemic, triggered alarm which is emphasised in the new German strategy on China.

That is why the three attributes of China as “partner, competitor and systemic rival” could also be viewed chronologically in the German case. The first two attributes marked the period of Angela Merkel, when the national economy became dangerously dependent on China, just as Beijing wanted.

“Strategic rival” becomes an attribute that will mark the attitude of Olaf Scholz's government towards China and its influence.

This is hinted at by the call for a change in Germany's behaviour because China has also changed.

Baerbock, with her hawkish stance towards Beijing, has been seeking a comprehensive change in the attitude towards China because it is becoming “more repressive at home and more offensive abroad”.