

## Germany's China strategy is epoch-making but ambiguous

Professor, Graduate Schools for Law & Politics, The University of Tokyo

Takumi Itabashi

European Commission President Ursula von der Leyen gave a keynote speech to the Mercator Institute for China Studies and the European Policy Center on March 30, outlining her vision for a new de-risking approach to the European Union's relations with China.

De-risking is different from decoupling as it can be described as an approach of reducing excessive reliance on China in key fields while cooperating with Beijing on issues such as climate change.

Nevertheless, this doesn't imply that the EU has made any specific decisions regarding its China strategy.

In this context, Germany, which likely plays a key role in determining Europe's China strategy, unveiled its 64-page strategy on China in German, English and Mandarin on July 13.

When discussing how the EU and Japan can cooperate in the field of economic security, it is important to look into Germany's China strategy to forecast the EU's future moves.

### **A breakthrough in German diplomacy**

Germany's China strategy was announced six months later than expected.

During that time, Berlin announced its first comprehensive National Security Strategy in June, four months later than initially scheduled.

The national security strategy referred to China as "partner, competitor and systemic rival," while avoiding mention of Taiwan, which drew attention to its China strategy.

Germany's government is made up of a coalition of three political parties — Social Democrats (SPD), Greens and Free Democrats.

While the SPD historically has sought closer engagement with China, the Greens want a tougher line on Beijing, particularly over human rights issues and Taiwan.

The delay in the announcement of Germany's China strategy — and of its national security strategy — is reportedly attributable to the power struggle between the Federal Chancellery, led by Chancellor Olaf Scholz of the SPD, and the Federal Foreign Office, headed by Foreign Minister Annalena Baerbock of the

Greens party.

Some say the announcement was delayed due to the visit by Chinese Premier Li Qiang to Berlin in June — his first overseas trip as premier — for the seventh China-Germany intergovernmental consultation.

Moreover, business circles are said to have intervened in an effort to avoid damaging economic ties with China.

In this way, Germany's China strategy showed — even before its announcement — great consideration for Beijing. Nevertheless, the adoption of such a strategy marked a breakthrough in itself, and the document holds significance for Germany's history of China policies, both in terms of content and impact.

The China strategy indicates that Berlin now officially regards Beijing as a threat to its national security and economic interests.

In its national security strategy, Germany has already stated that China “is trying in various ways to remould the existing rules-based international order, is asserting a regionally dominant position with ever more vigour, acting time and again counter to our interests and values.”

The China strategy uses a similar expression to describe the country, stating, “China is pursuing its own interests far more assertively and is attempting in various ways to reshape the existing rules-based international order.”

Berlin regards Beijing as a partner, competitor and systemic rival, and it appears that the latter two are now coming to the fore.

“China has changed. As a result of this and China's political decisions, we need to change our approach to China,” the China strategy document states.

While the national security strategy did not mention Taiwan, the China strategy document states, “We also have economic and technological interests regarding Taiwan. Taiwan is important for Germany both as a location for German companies and as a trade partner.”

The document also says, “The status quo of the Taiwan Strait may only be changed by peaceful means and mutual consent.”

## **The significance of China**

Even so, the document stresses the urgent need to de-risk, not a decoupling of economies.

While maintaining its trade relations with China as partners, Germany is committed to ensuring that this cooperation will become more reciprocal and diversifying its economic ties with other countries in Asia and elsewhere.

Needless to say, China has great significance for the German economy.

The country has been Germany's top trading partner for seven consecutive years since 2016, and goods worth some €300 billion were traded between Germany and China in 2022 — a record high.

Germany relies on China for supply chains of key industries such as automobiles, machinery and chemicals. Roughly two-thirds of Germany's rare earth imports come from China.

And it can be pointed out as a recent trend that Germany's trade deficit with China is expanding.

While Germany's exports to China in 2022 rose only 3.1% from the previous year to some €107 billion, its imports from China increased 33.6% to around €191 billion.

Germany's trade deficit with China surged 120% from a year earlier in 2022, reaching €84 billion, the largest since 1990.

Investments by German companies are continuing within China. A record €10 billion was added in 2021, followed by another record of €11.5 billion invested in 2022.

German firms occupy as much as a third of Europe's total direct investment in China, with investments by four major firms — Volkswagen, Daimler, BMW and BASF — particularly prominent.

Volkswagen relies on the Chinese market for at least half of its annual net profits, and BASF made a record high investment of €10 billion in the country in 2022.

Facing such a situation, the China strategy aims to reduce dependence on China in critical areas including rare earths, medical technology and medicinal products.

The strategy says Germany will consult on whether existing instruments should further be developed so that all trade and investment will take into account national security and human rights aspects, and that the German government is applying its export control procedures to ensure that German products are not misused for human rights violations and internal repression in China.

## Lack of assistance

Nevertheless, Germany's China strategy falls short of mandating outbound investment screenings, as recommended by the European Commission, and it does not outline specific public assistance measures for supply-chain diversification.

Mandatory reporting for companies heavily exposed to China also did not make it into the strategy document.

Scholz himself has played down the need for the government to enforce requirements, arguing that many firms were already diversifying their supply chains, investments and exports.

In this sense, the China strategy fails to offer incentives for German companies to actively diversify their supply chains. And there is no indication that they are discontinuing investments in China.

In June, Roland Busch, CEO of German engineering conglomerate Siemens, announced that the firm will invest €140 million in China as part of its plans to invest €2 billion in overseas manufacturing expansion this year.

German chemicals giant BASF has launched a €10 billion project to construct an integrated production base in Zhanjiang, Guangdong Province, to be up and running in 2025.

Saori Dubourg, a member of BASF's board of executive directors who had been considered a contender for the top job at the company, quit the firm in February, reportedly because she did not support its commitment to China advocated by CEO Martin Brudermuller, who is expected to leave the company next year.

At a shareholders meeting, concerns were raised about the firm's excessive focus on China when Stephan Kothrade, responsible for its China business project, was appointed to the board to succeed Dubourg.

Meanwhile, German automakers are trying to insulate their Chinese factories from rising global risks, prioritizing making their production and supply chains more local in China.

German carmakers shipped 254,607 vehicles to China in 2022, the figure being very small compared to the number of cars they produced in China.

Volkswagen alone produced 3.2 million vehicles in China in 2022, almost the same as the number it manufactured in Europe.

Germany's China strategy is facing mixed evaluation.

Lily McElwee and Ilaria Mazzocco at the Center for Strategic and International Studies in Washington wrote in a commentary that the strategy "reflects the emergence of a new geoeconomic mindset in Berlin, something many in Washington and Brussels have long awaited."

On the other hand, a more critical approach was taken by Liana Fix and Zongyuan Zou Liu at the Council on Foreign Relations in *Foreign Affairs* magazine: The strategy "does not represent a radical departure from the government's previous approach. Instead, it aims to sustain prosperity through trade with China while cautiously hedging against geopolitical risks."

As David Merkle and Leon Mosbacher of the Konrad Adenauer Foundation in Germany wrote, Berlin's China strategy can be described as "more of a compass than a strategy."

Although it shows the destination of de-risking, it does not really describe specifically what kind of measures should be taken to reach the goal and what actions will be taken by the government.

In that sense, the future of Germany's China strategy remains uncertain.

Still, the German government is beginning to make active moves such as strengthening screening of foreign companies' investments in German firms.

In May, despite the adoption of new restrictions aimed at protecting critical infrastructure, the German government gave approval to a controversial deal that will see Chinese shipping giant Cosco acquire a 24.9% stake in a container terminal owned by logistics company HHLA at the Port of Hamburg.

However, the government is changing its attitude after the Scholz administration's decision on the port was met with criticism.

As for the case of Berlin-based satellite communications provider startup Kleo Connect, for instance, the German government blocked a move by Shanghai Spacecom Satellite Technology, a Chinese firm that already owns a majority stake of 53% in Kleo Connect, to acquire more shares from German company EightyLeo.

The government is also scrutinizing the sale of Volkswagen subsidiary ship engine maker Man Energy Solutions' gas turbine division to Chinese state-owned firm CSIC Longjiang GH Gas Turbine, which was announced in June.

The cover image of the China strategy document is a picture of the Chinese strategy game *weiqi*, known as go in Japan.

The description for the cover image says, “Unlike in chess, the aim of *weiqi* is not to checkmate the other player but to acquire advantageous positions and defend what are known as ‘liberties.’”

If that is the case, it is difficult to say that Berlin is meticulously considering each move in its *weiqi* game against Beijing.

*Weiqi* is basically played one on one, but there are variants played by pairs or teams consulting among themselves.

Germany can come up with the next move by cooperating with the EU — as emphasized in the strategy document — and also with Japan.

Obviously, Japan should also work proactively to become Germany’s consulting partner.



**Profile**



Professor, the Graduate Schools for Law and Politics at the University of Tokyo  
Takumi Itabashi

Expertise  
International History / European Political History

**Disclaimer:** The views expressed in this API Goeconomic Briefing do not necessarily reflect those of the API, the Institute of Goeconomics (IOG) or any other organizations to which the author belongs.