

POLICY BRIEFING

18 JULY 2023

GERMAN CHINA STRATEGY

Background

Last week, the governing traffic light coalition of SPD, Greens, and FDP released the Federal Government's long-awaited China Strategy. Those who were avidly awaiting the strategy's release were left a bit disappointed, as the document acts more as a snapshot for where Germany is currently at in terms of its relation to China, rather than pointing out concrete paths forward. The main reason for this: the German coalition government was embroiled in dispute over the China policy. The pro-business wing of the Social Democratic Party (SPD) warned against an "anti-China" strategy, for which it has been criticized sharply by the Green Party. The Greens argued that recognizing realities in business practices and the human rights situation is crucial for a serious China policy. They emphasized the need to diversify energy supplies, promote trade agreements, and establish partnerships for raw materials, while parts of the SPD argue for deepening cooperation. The tensions stem from a strategy paper by the Seeheimer Circle, the pro-business faction within the SPD, which advocates for a pragmatic approach to China and criticized Green ministers for focussing on value based decision making, rather than by "economic realities" and "trade interests".

Important Content

Goals

- Central to this strategy is the notion that China is a **partner, competitor, and systemic rival** all in one – depending on the sector or problem at hand, Germany must treat/react to China differently.
- Central goals of the government's China strategy include:
 - Outline the federal government's perspective on the current relationship with + potential outlook for relations with China
 - Show ways and instruments the Federal Government can work together with China without encroaching upon Germany's liberal values, security, or sovereignty.
 - Act as a basis for intensified China policy coordination with stakeholders in Germany, Europe, and beyond

Bilateral Economic Relations

- Germany wants to maintain the economic engagement with China and is **not seeking to decouple**. It follows the EU narrative on “de-risking” in “critical areas”
- The German government will push for “comprehensive structural improvements” in the market conditions for German companies in China – namely in areas like **IP protection, investment restrictions, and regulatory discrimination**.
- Improve European companies’ access to China’s **public procurement system** by urging China to join the WTO Agreement on Government Procurement
- The Federal Government is bilaterally advocating for a more **free and trusted cross-border data transfer** and fairer regulation of cyberspace.
- In the **transport industry**, Germany wants to keep air- and maritime transport links open and fair by intensifying the exchange of expertise.

Technological Sovereignty/Protection of Critical Infrastructure

- Germany is doubling down on the EU's efforts to boost innovation – by supporting the EU Chips Act and EU AI Act
- **Standardization and norms** are also of critical importance in the technology sector – Germany will strengthen its engagement in international standardization activities in cooperation with China.
- The German government will **further push for common criteria in evaluating IT-security** and explicitly rejects self-made Chinese security certifications.

Market Access Support in China

- German government investment guarantees are linked to stringent sustainability-, environmental-, and working conditions standards. Companies will need to undergo an in-depth examination to receive this guarantee
- **State export credit guarantees** to protect German companies against politically or economically induced bad debt losses will also be re-examined in regards to unwanted technology transfer – in particular with **sensitive dual-use technologies, and technologies used for surveillance and repression**.

Dealing with Inbound and Outbound Investments

- Germany will pay special attention to investment review – particularly in critical infrastructure like the telecommunications-, data-, energy-, and transport sectors
- The Federal Government plans to **amend the law on investment auditing** and **consolidate it in a separate law**.
- The hot topic of potential outgoing investment screenings is mentioned in the Strategy, but refers only to the ongoing EU discussions.

International Cooperation

- Coordination with Germany's closest partners is the basis of Germany's approach to China – the transatlantic alliance and the close and trusting partnership with the US is of “outstanding importance” for the EU and Germany
- As expected, the China Strategy does not contain any proposals on new multi- or plurilateral formats to discuss geotechnology matters

Further Coordination on the China Strategy

- To steer and implement measures from the China Strategy, a **special state secretary round/committee** will be created.
- The Federal Government will regularly review the progress of the strategy – and will evaluate this progress through the **Bundestag** and “other relevant stakeholders” like the **Federal States, industry associations, individual companies, and unions**.

Reactions

The opposition **CDU/CSU** has welcomed the Chinastrategie by the Government coalition, but laments that concerns and unanswered economic questions remain. **Julia Klöckner, MP and federal treasurer of the CDU** criticized the lack of clarity and concrete measures in the strategy and calls for stronger cooperation with other countries, and the EU in particular. **Jens Spahn, Deputy Chairman of the CDU/CSU Parliamentary Group** highlighted the importance of a long-term bipartisan approach to China policy and proposes an annual China assessment in the Bundestag to evaluate dependencies and suggest countermeasures. The CDU concludes that coalition government's unity seems prioritized over substantive discussions, leaving room for doubt and improvements in the current strategy.

This tone of prioritizing internal coalition unity over substantive discussions and concrete measures is a criticism also shared in wider media circles. German reporters and media outlets have pointed out that the coalition partners simply could not see eye-to-eye on topics like German investment in China and vice-versa, leading to a watered-down text that simply states the status quo.

The strategy has received mixed reactions regarding the Taiwan conflict. **Beijing** criticized the document, calling it “counterproductive” and accusing Germany of protectionism. Overall, China's reaction was rather muted, apparently keen to protect relations with Germany. **Taiwan** welcomed Germany's position and expressed gratitude.

Outlook

The Federal Government's China Strategy makes it clear that the government is trying to find a balance between protecting economic growth and a focus on national security matters. Similar to the new National Security Strategy, the document is largely descriptive and offers few insights on prioritization other than alignment with the EU.

We expect a muted response in the upcoming federal parliament discussion (after the summer break). While opposition policy-makers tried to frame the China Strategy as “insufficient”, economic realities will limit the appeal of being tougher on China.