

# Germany's China Strategy: Diplomacy and De-risking

## Key Takeaways

- Germany's first-ever China strategy aims to balance diplomatic engagement with de-risking its economic relationship in close coordination with the EU.
- The China strategy calls on businesses to take into account geopolitical risks in their business decisions and appraise China-related risks as part of their risk management processes.
- The German Government supports key instruments and initiatives of the European Commission like the „anti-coercion instrument“ but takes a cautious stance on plans for an outbound investment screening.
- Germany's approach towards what it considers critical infrastructure will be expanded beyond telecommunication networks with specific regulation in energy and later on to other non-IT sectors.

## Germany's China Strategy: Balancing the Coalition and a Superpower

On July 13<sup>th</sup> the German cabinet published its long-awaited China strategy. After months of delays and internal disagreements, the strategy strikes a fine balance between Berlin's efforts to de-risk its China relationship while at the same time trying to continue to reap the benefits of engagement with Beijing.

We expect the German government to update legislation on investment controls as well as critical infrastructure classifications, just as the United States and the European Commission are respectively working on proposals for an outbound investment screening mechanism to China.

At the same time, Berlin will continue to seek diplomatic engagement with Beijing, recognizing China's global role at large but also calling on China's responsibility for the global order in its stance towards the Russian war against Ukraine. It comes as the Biden administration is similarly aiming to put its relationship with the PRC on a more stable footing ahead of a likely visit by Xi to San Francisco later this fall.

## Waiting for the Green light

Since agreeing to join forces, the German three-way traffic light coalition made up of Chancellor Scholz's Social Democratic Party (SPD), the Greens and the liberal Free Democratic Party (FDP) have been sharply divided on how to approach German-China relations. Initiated by the Green-led foreign ministry, the government's effort to formulate Germany's first-ever China strategy has been embroiled in months of internal debate over how assertively Berlin should position itself against an ever more geopolitically and geoeconomically ambitious China. Additionally, the traffic light coalition has had to contend with a legacy of close political ties inherited from German governments since the Chinese opening and an economic model that has led to significant economic dependencies by Germany's largest corporations on the Chinese market.

While the Green foreign minister Baerbock and her party-colleague, minister of economics Habeck, have been pushing for a stronger stance on everything from rewiring the German economy to be less dependent

Berlin, July 17, 2023

## Germany's China Strategy: Diplomacy and De-risking

on the Chinese market to Beijing's human rights abuses, the Chancellery has been significantly more careful to ruffle feathers in Beijing at a time when relations with Russia have already reached rock-bottom.

What has emerged in the China strategy is a coalition-style balancing act between Berlin's desire to decrease its economic vulnerabilities on the PRC while at the same time continuing to reap the benefits of economic and diplomatic engagement.

### **De-risking: What's in the term**

Coming on the heels of the May G7 summit and the Commission's unveiling of an economic security blueprint, the government's China strategy provides some early indications of how Berlin plans to implement the de-risking approach that Western nations have coalesced around over the past months. After years of debating the wisdom of "decoupling," the Biden administration and its G7 partners managed to agree upon the goal of "de-risking" at their Hiroshima summit in May. The term, popularized by European Commission President Ursula von der Leyen, seeks to reduce strategic dependencies on China. Last month's unveiling of the first-ever European Economic Security Strategy (ESS) kickstarted a debate on what de-risking means for EU members.

The strategy implies Berlin's openness to coordinate potential limits to high-tech exports with military applications. Currently, the European Commission is working on a proposal for an outbound investment screening mechanism. Over the past months, the Biden administration has been preparing an executive order which will force companies to notify or limit their investments to China in the areas of quantum computing, artificial intelligence and semiconductors. The Biden administration has been seeking to coordinate an OIS mechanism with its G7 partners, and the European Commission will likely release a proposal at the end of the year. Meanwhile, Germany will create an umbrella law on which companies and institutions constitute critical infrastructures and possibly amend current rules on critical components. However, on OIS it takes a cautious position announcing that it will "constructively" participate in the process. On trade, Berlin will further develop its export control lists against new technological developments with military or intelligence-gathering applications.

Backtracking from stronger wordings in previous drafts, the German government's strategy calls on companies to "take geopolitical risks sufficiently into account in their decision-making" and expects German businesses to assess China-related risks as part of their risk management procedures.

### **To Jaw-Jaw is better than to War-War**

At the same time as Berlin seeks to mitigate bottleneck dependencies on the PRC's economy, Scholz and his government officials will be keen to maintain dialogue with Beijing on everything from Russia's nuclear threats to how to jointly tackle the issue of climate change. Last month, the German government welcomed

Berlin, July 17, 2023

## Germany's China Strategy: Diplomacy and De-risking

their Chinese counterparts for traditional government consultations, which followed several visits by senior German officials to Beijing. Scholz himself takes credit for having convinced Xi to warn Putin against using nuclear weapons in Ukraine and the German government continues to be focused on preventing China from aligning itself too closely with the Kremlin.

The German government's determination to engage with Beijing dovetails with the US desire to reengage with the PRC following months of strained relations. A visit by US Secretary of State Blinken in June was followed by Treasury Secretary Yellen's Beijing touch-down earlier this month in which she picked up on Xi's statement, saying that "the world is big enough for both of our countries to thrive." We expect diplomatic relations between Chinese and Western powers to continue to stabilize over the next half year, ahead of Xi's likely visit to San Francisco this fall and what will be a raucous pre-election period in the US in 2024.

### **Don't you dare**

At the same time, the German government did use its China strategy release to underline – contrary to Macron's earlier statements – that any military escalation across the Taiwan Strait would directly affect German and European interests. German officials, including Chancellor Scholz had previously warned their Chinese counterparts directly against any attack on Taiwan. In this context, whilst reaffirming the "One China" principle, the German Government underlines its "good and close relationship" with Taiwan that it is interested to expand further.



**Moritz Lütgerath**, BGA Director  
moritz.luetgerath@bga.global



**Prof. Dr. Eberhard Sandschneider**, BGA Partner  
eberhard.sandschneider@bga.global



**Martin Wiesmann**, BGA Managing Partner  
martin.wiesmann@bga.global