

June 15, 2023

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Testimony before the U.S.-China Economic and Security Review Commission
Germany's View of China

1.

The driver of Germany's „extensive trade and investment into China“ does not, in principle, differ from Germany's trade and investment elsewhere around the globe. In the 1980s, as the third-largest economic power in the world, Germany's industry pursued expansionist strategies wherever possible and profitable. China was a primary and convenient target, inviting to (1) bet on Deng Xiaoping's policy of „Reform and Opening“, (2) revive China's traditional pre-World War II links to German industry, and (3) use the political opportunities of a potential partner that was a rival to the West's Cold War adversary, the Soviet Union. In that, Germany acted similar to other European liberal market economies such as Great Britain or the Netherlands, but different from France with its more state-directed industrial policy. The situation changed somewhat after the massacre on Tiananmen Square in 1989, when business with China became tainted by the suspicion of supporting a brutal dictatorial regime. However, soon the stratagem of „Change through Rapprochement“ offered itself as a convincing rationale, because it had worked well enough with the Soviet Union, leading to its demise at the end of the Cold War. When president Jiang Zemin and prime minister Zhu Rongji in the 1990s revived the dynamic reformist course of before Tiananmen, and strove for membership in WTO, that seemed to justify Germany's policy of supporting trade and investment in China. It benefited German industry and at the same time gave credibility to what was now called more and more often „Change through Trade“. After chancellor Merkel came into office, her inside-knowledge of how Communist dictatorships function, and her anti-Communist credentials seemed to allow a strategy of cooperating where possible but disagreeing where necessary: a watchful political exchange with PRC leaders, while at the same time pushing for market economy reforms and supporting human rights. As a result, since 2011 annual government consultations between Germany and China have become a forum of searching for common ground both politically and on trade and investment. Only a few years after Xi Jinping took over in 2012, this complicated multifaceted policy became discredited by both Xi's economic policies - more than ever after the so-called „dual circulation“ strategy was promulgated in 2020 -, and his aggressive foreign policy, culminating in his partnership with Putin. The agreement between the three parties forming the German government since 2021 bears witness to this change in perception.

2.

The coalition agreement with the central objectives of „shaping our relations with China in the dimensions of partnership, competition and system rivalry“ and of striving „for close

transatlantic coordination“ represents (1) a change in the public view of China (with regularly between 70 and 80 per cent of those polled holding negative views of the PRC), (2) the increasing uncertainty in German industry about their future opportunities in China, and (3) the political search for a new China strategy, as planned by the coalition agreement. That search in itself reflects (a) differing attitudes of German parties, (b) changing facts on the ground in China, and (4) the recognition that the PRC itself is changing its own Europe strategy.

The largest coalition party, the Social Democratic Party (SPD), has a solid tradition of pursuing traditional „Ostpolitik“ combined with business-friendliness in its economic policy (fed by trade union influence). Since the 1980s, it has a regular annual political exchange with the Central Committee of the CCP. The SPD thus finds it difficult to change its political views by 180° but recognises the need to redefine Germany's and Europe's China policy. The Green party has a decades-old tradition of human rights engagement and activities on Tibet issues. It is presently pushing hardest for a new approach to China (Foreign Minister Annalena Baerbock on April 14 at her joint press conference with PRC foreign minister Qin Gang warned that a violent change in the status of Taiwan would be “unacceptable”, insisted on respect for the rights of the Uyghurs, and called on the PRC to use its influence on Russia to end the war in Ukraine). The liberal Free Democratic Party (FDP), despite in principle the most business-friendly one of German parties, guided by some of its leading politicians over the years has become engaged in pro-Taiwan and Tibet human rights policies. Today it is the only party whose political foundation has been moved from the PRC to Taiwan (In May, Germany's minister of finance and head of the FDP was asked by the PRC government on short notice to „postpone“ his visit to Beijing, presumably because the FDP is considered the least „friendly“ party by the CCP). The largest opposition party, the Christian Democratic Union (CDU), the party of Angela Merkel, never developed a clear profile on China, content with the industry-friendly policies of Chancellors Kohl (CDU), Schroeder (SPD) and Merkel. Only in recent years, some of its politicians developed a clearer profile on China. The CDU's proposal for a China strategy basically is not very far from the government's drafts („China's rise is the 21st century's epochal challenge for all nations; as China's policy has changed, so our policy has to change“). Once the government will have published its China strategy, no deeper rifts between the government and the CDU are to be expected. Of the smaller opposition parties, the leftist „Linke“ has a distinct pro-China position, as has the rightist AfD. The China strategy drafts presently worked on by two „Green“ ministries (Federal Foreign Office and Federal Ministry for Economic Affairs and Climate Action) are strong on both political statements (one of the drafts emphasizes that China's challenge is political, economic, technological, ecological, systemic, military, and global), and on detailed technical proposals (one of the drafts demands that regular self-imposed or mandatory industrial stress tests be introduced). Both drafts are presently discussed within the government and the strategy is to be promulgated sometime in Summer. It will represent a compromise between political positions that are not completely compatible with industry interests, and an adjustment to the negative public image of China in Germany.

NATO is a transatlantic security alliance. Despite some engagement in Afghanistan, and despite exploring a possible „global NATO“ about 15 years ago, it has refrained from discussing China in depth. It was only due to intensive lobbying and pressured by the Biden administration that NATO on June 14, 2021 at the NATO summit declared that China presents a security risk to which the alliance needs to respond to. That declaration represents a circumspectiously calibrated adjustment of the China positions of various alliance members (think of Hungary!). As for the European Union, it certainly is not an autonomous actor. While it devises political (the EEAS) and economic (the European Commission) strategies on its own, member states not only try to influence the conception of strategies in Brussels, but in turn are also requested by Brussels institutions to assist them. The reason is obvious. In an integrated market such as the EU's and with policies of member states directly impacting EU policies, positively or negatively, early coordination is imperative for a successful common EU policy. Interests of member states in participating in these efforts, however, differ greatly, as do political and economic interests and the general orientation of member states: Hungary, for example, hoping for a particular Chinese investment, might try to stall EU policy that is critical of the PRC; at the same time the Czech Republic, with its human rights policy tradition, may be prone to risk Beijing's wrath more easily than other member states. Given the level of integration of the EU's economic and political views, larger member states tend to represent more of their interests in Brussels directly, including those of smaller member states with whom they cooperate on particular projects (Here the departure of the United Kingdom from the Union has a tangible impact on this kind of opinion-building).

4.

Even with market-economy principles in China regularly perverted, with intellectual property theft, with the environment for foreign-invested companies in the PRC manipulated to their disadvantage, with CCP political influence on economic decision-making, and with flagrant corruption, even with all that, throughout the two decades of vigorous Reform and Opening policies the Chinese market still offered profitable opportunities to larger German firms and to SMCs (the famous „backbone of German industry“) as well as to firms from other EU countries or non-EU European countries venturing to do business in China, alone or, often, together with German partners. With Xi Jinping's policies of strengthened political control of foreign firms, with the exclusion of foreign firms from market segments where they are no longer deemed needed due to the new „dual circulation“ strategy, mainly SMCs have come to feel pressure of a kind that dims their view of future opportunities in China. This is what led the German Federation of Industry (BDI) in 2019 to state, even before the government adopted the expression, that China is a „cooperation partner, an economic competitor and a systemic rival“. Today, larger firms still see profits outweighing risks and caution against alienating the CCP. They, however, have come to realize lately, that many of their Chinese suppliers have begun to pursue their own version of „de-risking“ (or „relocating“), that is to say, to move factories abroad so that they can still supply their present customers should these suddenly off-shore to somewhere outside of China (Southeast Asia most of the time is considered an attractive

destination). De-risking in the sense of evaluating risks and arriving at appropriate conclusions is a policy that business insists is an intelligent corporate strategy they are traditionally used to pursuing everywhere in the world. German business traditionally is in continuous exchange with administrative institutions and politicians and strives to impact policies in the making, be they domestic or foreign policy, and thus, the repositioning of Germany's China business is already underway.

5.

Evidently, German companies are in China for the profit. With a dynamic economy such as the PRC's, since the 1990s growing fast and then truly booming, that profit used to be considerable for larger firms as much as for SMCs. Primarily, customers first used to be in China but soon German investors helped turn China into that much-quoted low-wage „workshop of the world“, and sold from China too. With the increasing complexity of global supply chains, more firms sold out of, and again into China. Especially machinery, one of the mainstays of German industry, is imported from Germany to be sold in China, or (partly) produced in China for the Chinese or other markets. Often this involves other business partners, such as from Japan or Korea. In turn, Chinese firms have invested comparatively little in Germany, at least until the infamous „investment blitz“ of 2016 which mainly concerned high-tech firms, of interest in the framework of the official Chinese program of „Made in China 2025“. Some facts on Germany's involvement in China: China is Germany's biggest trading partner, importing goods valued at about \$202 bn in 2022, exporting for about 107 bn to China. German products sold in China (often produced in China too) are mainly cars and car parts, electric equipment, mechanical engineering, chemicals and pharmaceuticals. Especially the large firms want to continue to invest in China, insisting that with only about 7 per cent of German foreign-direct investment going to China, and China contributing about 12-16 per cent of corporate profits (about the same as in the case of the United States), only about 3 per cent of German jobs depend on China thus not constituting overexposure to the Chinese market. The counter-argument is that e.g. with 95 per cent of solar panels or 80 per cent of laptops in Germany coming from China, this means that Germany at least in some industrial segments already does depend too much on China (see also below #6).

Throughout the decades, in times of disputes, China used to threaten it would leverage its ties with the German firms in question, if things were not resolved the way Chinese partners would have it. As such, the strategy has never been successful, mainly because Chinese business partners felt the pain as much as German ones. But as there is the possibility of the tool being employed eventually, it always looms in the air and firms tend to avoid controversies. If such leveraging efforts enter the political sphere, they may turn into vicious controversies (though not in the case of Germany so far). In the case of the Nobel Peace Prize awarded to Chinese dissident Liu Xiaobo in 2011, Norway was held accountable, absurd as it was, for the Committee's decision, and suffered an economic boycott (of Norwegian salmon, and the cancellation of FTA negotiations) until it made conciliatory gestures such as admitting China to the Arctic Council in 2013, or refusing to meet with the Dalai Lama. When the European

Union in 2021 imposed sanctions on Chinese entities and persons responsible for human rights violations in Xinjiang, China countered by imposing its own boycott on members of the European Parliament (which in Europe is the most hawkish yet least influential actor on China) and various institutions such as think tanks, and terminating negotiations of a „Comprehensive Agreement on Investment“ with the EU.

6.

The first spontaneous reaction of the general public was the assumption that what Russia was doing in Ukraine, China might soon be doing in Taiwan (headline of the largest German tabloid: „What do we do if China attacks?“). Next, the question arose if Germany had not become dependent on business with China in a way similar to its dependence on energy imports from Russia, and therefore in the case of a major conflict with China might be extremely vulnerable. The present far-reaching societal consensus on „de-risking“ is a result of a rapidly growing awareness of the dependence risks involved in a close business relationship with China. Thus, the negative image of China continues to worsen. The possibility of a closer Russia-China partnership is seen as a direct threat to Europe and Germany. Continuous and insistent Chinese efforts to convince Germany and Europe that they would be better off securing „peace“ in Ukraine rather than supporting the country by „following the U.S.“, alienate the German public, and find no echo with the exception of the extremist Right and extremist Left.

7.

In Europe, the notion of „de-risking“ was introduced by European Commission president von der Leyen on March 30, 2023. It is a more sophisticated way of dealing with aspects of the China challenge than the almost undefinable „decoupling“, and thus seems convincing enough. Its precise definition, though, is still in the making. It is understood as meaning to reduce excessive dependencies on China in critical supply chains and to pursue economic diversification. The G7 summit on May 20 has gone farther by adding „economic resilience and economic security by reducing vulnerabilities and countering malign practices that exploit and reinforce them“. Politically, it is to be understood as a comprehensive approach to deal with a challenge that von der Leyen explained with the words „The CCP wishes for a systemic change of the international order with China at the centre which demands watchfulness and readiness to stand up to challenges.“ As the EU sits at the G7 table, it will most certainly work to convince EU Europeans and to minimise differences among EU governments over the meaning and implication of de-risking. That does not mean that Europe (as a whole, including important non-EU member states such as the UK, Norway, or Switzerland) pursues, or even possesses, a common China strategy.

8.

This is the view not of an expert on economic matters, but only of an observer: We do not want to become like China. It is to our advantage to maintain a free market system, and to strive for it globally. Certainly, coordinating efforts across the Atlantic to foster resilience of our firms, and to protect them from PRC foul play makes much sense. Such efforts might have three components: (1) As the G7 Summit said, (We) „recognise the necessity of protecting certain advanced technologies that could be used to threaten our national security without unduly limiting trade and investment“. (2) Defining a threshold from where extensive scrutiny of foreign investments must begin - with the understanding to interdict as little as possible, but not to accept the CCP in China toying with the existence of our firms who for so long not only benefited from being in the Chinese market, but also contributed to China's present prosperity. And (3) bringing firms across the Atlantic together in joint projects of cooperating and maintaining supply chains and institutions concerned with upholding free trade internationally; the EUCCC and its American counterpart in Beijing could play a useful active role here.

9.

A non-American cannot recommend anything to the American Legislative Branch; but maybe I am permitted a simple general observation. From 1945 on, the United States constructed a new international order out of post-war chaos. Despite major flaws, this order maintained peace between the superpowers, and laid the foundation for a decades-long period of global growth that lifted billions out of poverty, and in Western Europe laid the foundation for its present prosperity; after 45 years it led to the end of the Cold War. That international order is based on global rules, free market economy principles, and an understanding by America that it will contribute to uphold it. Today that order is fraying. Waning confidence in America's leadership corrodes the functioning of global governance. A majority of countries do not support sanctions against Russia which under Putin tries to bring together what it calls a „world majority“ against the U.S. and the West. China's successful rise is a temptation for leaders across the globe to replace rules by transactional pursuance of self-interest. The threat of war is there. It can be contained by a number of measures, and we Europeans must be one of the first addresses for America to talk to about how to deal with the new challenges. At the same time, the leaders of America, when they go about legislating to adjust the US economy to new challenges, need to remember that such legislation may have indirect consequences. Some of these consequences in the end may prove detrimental to the unity of the West, and therefore to America's interests as much as many of the dangers we were confronted with during the Cold War.