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BRIEF**

CHINA AND GERMANY: WHY THE EMERGING SPECIAL RELATIONSHIP MATTERS FOR EUROPE

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SUMMARY

The increase in trade between China and Germany during the last decade – and, in particular, in German exports to China – has exceeded all expectations. Based on the economic symbiosis between China and Germany, a “special relationship” is now developing – just as Europe is beginning to develop a more strategic approach to China based on a clearer definition of the European Union’s common interests and how to pursue them. Against the background of the euro crisis, China increasingly seems to see Germany as the dominant player in Europe and one whose economic dependence on China and strategic preferences make it a preferred partner.

Germany’s instincts remain European, but officials are frustrated by the failure of their attempt to develop a common strategic European approach to China and do not feel they can wait any longer. Germany must not give up on Europe. But the rest of Europe also urgently needs to help Germany to be a good European by developing a real “strategic partnership” with China before it is too late. The EU should identify where Europe can help Germany in its relationship with China; empower the European External Action Service (EEAS) to co-ordinate a “top-down” approach to China policy; and explore new formats for dealing with China.

Europe’s future relationship with China – one of its most important “strategic partners” – will be determined to a large extent by Germany’s rapidly evolving bilateral relationship with China. Germany is China’s number-one trade partner in the EU: nearly half of all EU exports to China come from Germany; nearly a quarter of EU imports from China go to Germany. The increase in trade between China and Germany during the last decade – and, in particular, in German exports to China – has exceeded all expectations. In fact, China is now the second-largest market for German exports outside the EU and is poised to overtake the United States as the largest this year, if growth continues.

The burgeoning economic interdependence between China and Germany, based on a technology-for-markets swap, is the basis for an increasingly close political relationship that was upgraded to a new level last June when Chinese Premier Wen Jiabao came to Berlin with 13 ministers and held a so-called government-to-government consultation – in effect, a joint cabinet meeting. Germany had previously held such meetings with other countries such as France and Israel and also since last year with India. But it was the first time that China had ever established such a high-level inter-governmental negotiation mechanism with an EU member state – an extraordinary expression of Germany’s importance to it. In short, Germany is now by far the biggest European player in China.

Against the background of the euro crisis, many are now wondering whether a “German Europe” is emerging.

Whether or not it is accurate, the perception that Germany is now the most powerful country in the EU may also be having an impact on relations with external partners – particularly China, which is closely following the debate in Europe about German power. It may be that, as a result, the Chinese are increasingly dealing with Europe through Germany rather than through the foreign-policy institutions created by the Lisbon Treaty. Last year, the EU–China summit was postponed due to internal crisis meetings over the euro even as Germany held its government-to-government consultation with China. Chancellor Angela Merkel’s visit to China in February – in between the European summit and the EU–China summit – led some to wonder whether Berlin may have replaced Brussels in Beijing.

Thus Germany’s emerging special relationship with China is both an opportunity and a danger for the rest of Europe. The upgrading of Germany’s relationship with China comes at a time when Europe is beginning – and struggling – to develop a more strategic approach to China based on a clearer definition of the EU’s common interests and how to pursue them.¹ On the one hand, the scale of Germany’s investment in China may give Europe greater leverage than it would otherwise have and thus benefit Europe as a whole. On the other hand, there is a danger that Germany could use its bilateral relationship with China to pursue its own economic interests rather than Europe’s strategic interests.

The Chinese-German symbiosis

The background to the evolving economic relationship between China and Germany is the structural shift in the German economy that began under the “red-green” government of Chancellor Gerhard Schröder. As Germany undertook difficult structural reforms to improve competitiveness after the creation of the single currency in 1999, the German economy became more and more dependent on exports – initially to the European periphery but increasingly also to Asia and above all China. Two-thirds of GDP growth in the past decade has come from exports and today nearly half of GDP comes from exports. In the decade since the creation of the euro, Germany’s economy has become, as Simon Tilford has put it, “structurally reliant on foreign demand for its growth”.²

Partly as a result of this structural change in the economy, German foreign policy is now also increasingly driven by economic interests and, above all, by the needs of exporters.³ The Federal Republic always used economic rather than military means to achieve its foreign-policy goals and was

thus seen as a “civilian power”. But before reunification, German foreign policy also pursued political goals – above all, security and rehabilitation. With the end of the Cold War, however, the political constraints on Germany were lifted while globalisation and the costs of German reunification have put the German economy under greater pressure. As a result, German foreign policy has been increasingly in pursuit of economic rather than political goals.

This economic focus is particularly evident in German policy towards China. Even before diplomatic relations were established between the Federal Republic and the People’s Republic in 1972, West Germany had become China’s most important trading partner in Europe. However, led by companies such as BASF and Volkswagen, trade grew gradually in the 1990s and dramatically in the 2000s. In order to deepen trade ties with China, Chancellor Schröder made a point of visiting China at least once a year in order to promote German businesses.⁴ This led to a number of big contracts, including a \$1.5 billion project involving Siemens and ThyssenKrupp to build a high-speed magnetic levitation railway line in Shanghai (although the project was never completed).

The economic relationship between China and Germany has intensified even further since the economic crisis of 2008. In fact, demand from China – itself the result of the four trillion yuan (\$586 billion) Chinese stimulus – was a major factor in the rapid recovery of the German economy. According to the Italian bank UniCredit, exports to China contributed 0.5 percentage points to German growth in 2011 – the equivalent of €13 billion.⁵ Exports to China currently amount to just under 7 percent of Germany’s total exports, making it the third-largest market for German exports, behind France (10 percent of German exports) and the United States (7 percent). But as demand has slowed in Europe, German companies are increasingly dependent on emerging economies and above all China for growth.

At present, there is an almost perfect symbiosis between the Chinese and German economies: China needs technology and Germany needs markets. “We have exactly the products they need”, says one German official. In particular, Chinese consumers want high-end German products such as cars (China is now the biggest market for the Mercedes S-Class) and Chinese companies want German machinery. Chinese officials say they see Germany as having a stronger “real economy” – and therefore see it as more useful to them – than other member states such as the United Kingdom that have largely abandoned manufacturing. “We want to work with other Europeans too but there is limited potential”, says one Chinese official. In particular, Germany is involved in industries that China regards as strategically important such as automobiles, renewables and high-technology.

¹ On a strategic approach to China, see John Fox and François Godement, “A Power Audit of EU–China Relations”, European Council on Foreign Relations, April 2009, available at http://ecfr.3cdn.net/532cd91d0b5c9699ad_ozm6b9bz4.pdf.

² Simon Tilford, “How to save the euro”, Centre for European Reform, September 2010, p. 3, available at http://www.cer.org.uk/sites/default/files/publications/attachments/pdf/2011/essay_euro_tilford_14sept10-196.pdf.

³ See Hans Kundnani, “Germany as a geo-economic power”, *Washington Quarterly*, 34:3, Summer 2011, pp. 31–45, available at <http://csis.org/files/publication/twq11summerkundnani.pdf>.

⁴ Gerhard Schröder, *Entscheidungen. Mein Leben in der Politik* (Hamburg: Hoffmann und Campe, 2006), pp. 139–40 (hereafter, Schröder, *Entscheidungen*).

⁵ UniCredit Economics Research, UniCredit Weekly Focus, No. 12, 12 April 2012, available at https://www.research.unicreditgroup.eu/DocsKey/economics_docs_2012_125939.ashx?KEY=C814QI31Ejqlm_1z1JDBJGvd+rOCUpzh2jykB-Gf15A%3D&EXT=pdf.

However, this overlap between the sectors of the economy in which Germany excels and the sectors in which China wants to excel in the future also means that there is potential for conflict as well as co-operation between China and Germany. In particular, as its companies move up the value chain, China will increasingly provide competition as well as a market for German exporters, both in China itself and in third markets. In fact, as Bert Rürup and Dirk Heilmann have recently pointed out, “Germany is providing emerging economies with exactly the type of products that they need in order to build up the capacity to compete with German companies around the world”.⁶

Competition is likely to be particularly fierce in business-to-business sectors. The recent collapse of the Berlin-based company Q-Cells – just a few years ago the world’s largest manufacturer of solar cells – illustrates the potential threat to German manufacturing from Chinese rivals. But there is also likely to be competition in mass market business-to-consumer sectors such as the automobile industry where brands such as Volkswagen are strong but will in the next 10 years face increasing competition from Chinese companies that are either state-owned or state-supported – for example, on electric cars, where there are particularly stringent criteria for technology transfer as a requirement for producing in China.⁷ In the medium term, German companies could as a result be pushed further into luxury niches.

The conflict over access to Chinese rare earths in 2010 may also be a sign of things to come. Germany imports between 3,000 and 5,000 tonnes of the 17 elements known as rare earths that are vital for the production of high-tech products, mainly from China. After China reduced its exports of the minerals in 2010, Germany complained to the European Commission and the G20. The EU, Japan and the US are now taking the case to the World Trade Organization. In the meantime, Germany has also taken bilateral steps to diversify its supply. In particular, it signed bilateral agreements with Mongolia in 2011 and Kazakhstan in 2012 to secure access to rare earths. (Since 2010, however, demand for rare earths has fallen and Chinese export quotas have not been fulfilled.)

However, despite this likelihood of greater competition and the potential for conflict over access to raw materials, German companies are surprisingly optimistic about their future in China. They think the market is growing enough to accommodate Chinese competitors. They continue to complain about involuntary technology transfer through enforced joint ventures and about the lack of market access but say there have been improvements in intellectual property rights in China and that there will be further

improvements in the future as China increasingly needs to protect its own companies. Rürup and Heilmann argue that although Chinese companies will be increasingly competitive, “the fear that some in Germany have of an excessive dependence on China are exaggerated”.⁸

Germany’s approach to China

Germany’s approach to China is influenced by *Ostpolitik*, particularly among Social Democrats. Willy Brandt’s realist, “anti-ideological” approach to the division of Germany and Europe was based on the idea of “Wandel durch Annäherung”, or “change through rapprochement”, that Egon Bahr had developed in 1963.⁹ In order to achieve German reunification as the culmination of a long-term process of “small steps”, Bahr sought détente with the Soviet Union through foreign trade and the “weaving” of political, economic and cultural ties between West and East Germany. The *Ostpolitik* is seen in Germany as one of the Federal Republic’s big foreign-policy successes – a decisive and distinctively West German contribution to the end of the Cold War. The lesson for future policy was that, as Stephen Szabo puts it, “dialogue, diplomacy, mutual trust and multilateralism were the best approaches for dealing with seemingly intractable opponents”.¹⁰

At least since Schröder, Germany’s approach to China has been based on the idea that the best way to transform it is through trade – “Wandel durch Handel”, or “change through trade”. The hope is that, as Schröder put it, “economic exchange” would lead to “societal change”.¹¹ Thus Germans, particularly Social Democrats such as Schröder and Frank-Walter Steinmeier, tend to emphasise co-operation instead of confrontation with China.¹² Leading German China experts such as Eberhard Sandschneider also emphasise “Einbindung”, or integration, and co-operation instead of confrontation.¹³ As foreign minister, Steinmeier proposed a *Verantwortungsgemeinschaft*, or “community of responsibility” – a kind of German version of World Bank President Robert Zoellick’s idea of China as a “responsible stakeholder”.

In the context of this approach – what one might call *Fernostpolitik* – Germany also tends to take a low-key approach to human rights. Although Germany has a bilateral human rights dialogue with China like other

⁸ Rürup and Heilmann, *Fette Jahre*, p. 101.

⁹ On *Ostpolitik* as an “anti-ideological” approach, see Gordon A. Craig, “Did *Ostpolitik* work?” *Foreign Affairs*, January/February 1994, available at <http://www.foreignaffairs.com/articles/49450/gordon-a-craig/did-ostpolitik-work>.

¹⁰ Stephen F. Szabo, “Can Berlin and Washington Agree on Russia?”, the *Washington Quarterly*, 32:4, October 2009, p. 24, available at <http://www.gmfus.org/wp-content/files>

¹¹ Schröder, *Entscheidungen*, p. 141.

¹² See, for example, Gerhard Schröder, “Warum wir Peking brauchen”, 27 July 2009, available at <http://www.zeit.de/2008/30/China>; Frank-Walter Steinmeier, “Was wir uns von China wünschen”, *Frankfurter Allgemeine Zeitung*, 28 July 2008, available at <http://www.faz.net/themenarchiv/sport/olympia-2008/sportpolitik/gastbeitrag-was-wir-uns-von-china-wuenschen-1664308.html>.

¹³ See, for example, Eberhard Sandschneider, “Gestaltungsmacht China. Mit Kooperation statt Konfrontation zur Ko-Evolution”, *Internationale Politik*, March/April 2012 (hereafter, Sandschneider, “Gestaltungsmacht China”).

⁶ Bert Rürup and Dirk Heilmann, *Fette Jahre. Warum Deutschland eine glänzende Zukunft hat* (Munich: Carl Hanser Verlag, 2012), p. 98 (hereafter, Rürup and Heilmann, *Fette Jahre*).

⁷ Goldman Sachs Portfolio Strategy Research, “China: An opportunity and a competitive threat”, 4 May 2011.

member states, the main focus of its approach is the so-called *Rechtsstaatsdialog*, or “dialogue on the rule of law”, between the German justice ministry and its Chinese counterpart, the State Council’s Legislative Affairs Office. The dialogue began in 1999 under Schröder, who saw it as a more “patient” approach to human rights in China based on “persistent communication” rather than “punitive measures”.¹⁴ By focusing on issues such as commercial law that the Chinese are more willing to discuss because they think it is necessary for economic development, and by skilful behind-the-scenes diplomacy, German officials think they can push China to incrementally reform – in effect, a stealth approach to human rights.

At the same time, however, human rights issues resonate in Germany – especially freedom of speech, perhaps because of Germany’s own experience of totalitarianism. The German media has an “intense focus” on issues such as Tibet and human rights and cases such as those of Ai Weiwei and Liu Xiaobo.¹⁵ Probably in part as a result of this, China is viewed less favourably in Germany than in France, Spain or the UK.¹⁶ Several prominent Chinese exiles such as Liao Yiwu have also settled in Germany and become well-known figures.¹⁷ This popular awareness of, and interest in, human rights in China puts pressure on the German government to raise cases with the Chinese government.

When Merkel took over from Schröder in 2005, she initially seemed to place greater emphasis on human rights issues than he had. For example, she received the Dalai Lama in the chancellery in 2007, which led to a crisis in relations between Beijing and Berlin. Foreign Minister Frank-Walter Steinmeier sought to bring the standoff with China to an end by sending a confidential letter to his Chinese counterpart on the issue of Tibet. It has been reported that, in the letter, Steinmeier recognised that Tibet was “part of Chinese territory” – a more precise statement of Germany’s “one China policy” than in the past, which the Chinese state media saw as a diplomatic victory.¹⁸

Merkel now visits China once a year, as Schröder did, and appears to many in both China and Germany to have toned down public criticism on human rights. Chinese analysts and officials say that she “has understood”, become “more careful” and now “knows where the red lines are”.¹⁹ In particular, they welcome the German focus on the rule of

law rather than human rights abuses. They believe that, in so far as Germany continues to raise human rights issues, it is in order to satisfy journalists and public opinion. In particular, some experts on German human rights policy criticise her for neglecting human rights on her trip to Beijing in February.²⁰ For example, the Chinese government prevented her from meeting with critics of the regime such as Mo Shaoping, a human rights lawyer who represents Liu Xiaobo.²¹

The question is whether an approach that worked towards the Soviet Union in the context of détente during the Cold War can work towards China in a globalised post-Cold War world in which power is shifting from West to East. China today is not the Soviet Union in the 1970s. During the last 30 years, China has been remarkably successful in combining economic liberalisation with an authoritarian political system. In this context, the idea that further trade with China could lead to political liberalisation could be naïve, as some in Germany such as Eckart von Klaeden have suggested.²² In fact, the idea of “Wandel durch Handel” could be simply a way to justify doing business with China. Indeed, it may be that rather than Germany cleverly manipulating China, China is in fact cleverly manipulating Germany.

China’s approach to Germany

Germany is viewed remarkably positively in China, where it is associated above all with high-quality products such as automobiles (and, for Communist Party officials, with Karl Marx). While Germany’s history is often seen as a burden in the West, it is actually a source of soft power elsewhere in the world because it is not widely perceived as a former colonial power like France and the UK are. Although Germany did acquire territory in China in the late nineteenth century and took part in the suppression of the Boxer Rebellion, this does not seem to form part of Chinese perceptions of Germany. Nor does Germany’s alliance with Japan in World War II seem to influence the way the Chinese see Germany.

Above all, however, the Chinese see Germany as the country that can help them move to the next stage of their economic development. In its twelfth Five-Year Plan, which was agreed last spring, China committed to increase domestic consumption, develop strategic industries shielded from foreign competition, and increase spending on research and development in order to stimulate indigenous innovation. Thus China aims to become a hub for high-tech innovation and green growth. In particular, China aims to develop its

¹⁴ Schröder, *Entscheidungen*, p. 143.

¹⁵ See Carola Richter and Sebastian Gebauer, “Die China-Berichterstattung in den deutschen Medien”, Heinrich Böll Stiftung, June 2010, available at http://www.boell.de/downloads/Endf_Studie_China-Berichterstattung.pdf. An English-language summary of the report is available at http://www.boell.de/downloads/TXT_20110606_Media_Study_Summary-CR.pdf. The report examined the coverage of China in six quality German newspapers and news magazines in 2008.

¹⁶ “China Seen Overtaking US as Global Superpower”, Pew Research Center, 13 July 2011, available at <http://www.pewglobal.org/2011/07/13/china-seen-overtaking-us-as-global-superpower/>.

¹⁷ See Didi Kirsten Tatlow, “Chinese Artists Drawn to Berlin, a Haven That Reverses History”, *New York Times*, 10 August 2011, available at <http://www.nytimes.com/2011/08/11/world/asia/11iht-letter11.html?pagewanted=all>.

¹⁸ “Chinas Regierung lässt jubeln”, *Frankfurter Allgemeine Zeitung*, 26 January 2008, available at <http://www.seiten.faz-archiv.de/faz/20080126/fd2200801261546704.html>.

¹⁹ Unless stated otherwise, quotes are from interviews with the authors.

²⁰ See, for example, Markus Böckenförde and Julia Leininger, “Prozesse fördern, nicht nur Produkte fördern: Demokratie und Menschenrechte in der deutschen Außenpolitik”, *Aus Politik und Zeitgeschichte*, No. 10, 2012, available at <http://www.das-parlament.de/2012/10/Beilage/007.html>.

²¹ “Peking verhindert Treffen der Kanzlerin mit Regimekritikern”, *Süddeutsche Zeitung*, 3 February 2012, available at <http://www.sueddeutsche.de/politik/affront-bei-merkel-besuch-in-china-pekings-verhindert-treffen-der-kanzlerin-mit-regimekritikern-1.1274949>.

²² Eckart von Klaeden, “So wird China keine lupenreine Demokratie”, *Die Zeit*, 28 July 2009, available at <http://www.zeit.de/2008/31/Op-ed-31>.

own brands rather than producing for foreign companies so that it moves up the value chain and retains more of the profits from production.

In this context, the Chinese see the German economy in general and its manufacturing industry in particular as especially useful to them. Chinese officials like to talk about a “win-win” relationship between two countries whose economies are “complementary” and there is much talk of even closer co-operation in the future around green technologies such as electric cars.²³ Chinese think-tanks are studying the German social market economy (which, although it was a creation of the centre-right Christian Democrats, some see as related to their own “socialist market economy”) and German labour relations to see if they can learn from them. They are also co-operating with Germany on a “vocational training alliance”, which helps German companies that increasingly need skilled labour for manufacturing in China.

China also wants to invest in German companies as part of the next phase of its “going-out” strategy. For example, earlier this year Sany, a Chinese construction group, acquired Putzmeister, a medium-sized German company that makes high-tech concrete pumps, for €360 million.²⁴ Such acquisitions may become more common in the future. “They are buying the backbone of German innovative capability”, says one German official. However, while some in Europe fear such Chinese investments, which have increased since the euro crisis began, Germany remains opposed to protectionist measures.²⁵ For example, it rejected a European Commission proposal for a vetting system for foreign investments. Some in Germany, particularly in the economics ministry, do not support reciprocity as a guiding principle for European policy. Chinese analysts and officials say that Germany’s export-driven economy means it will not succumb to protectionism.

China’s upgrade of bilateral relations with Germany should be seen in the context of this increased economic co-operation between the two countries. Wen Jiabao is thought to be particularly keen to institutionalise the government-to-government consultation before the new Chinese leadership takes over in November.²⁶ This intensification of the bilateral relationship with Germany seems to be part of a longer-term shift by China away from the supranational to the intergovernmental level in its approach to Europe that

began after the rejection of the European constitution in France and the Netherlands in 2005.²⁷ Since then, China has focused its attention on member states rather than the EU institutions while paying lip service to the new institutions created by the Lisbon Treaty.

The euro crisis seems to have led to an increased Chinese focus on Germany in particular. Above all, it has strengthened Chinese-German co-operation on economic issues. “It is better to have co-operation with Germany than to pay money to other countries that have problems with their real economies,” says one Chinese analyst. Although there were high hopes that China might invest in southern European government bonds or the European Financial Stability Facility (EFSF), the evidence suggests that the risk-averse Chinese are primarily buying more secure German debt.²⁸ This has helped drive Berlin’s borrowing costs to record lows.²⁹

China’s increased focus on Germany may also be a pragmatic response to a perceived shift in the balance of power within Europe as a result of the crisis, which some Chinese analysts say they see as a “new start” for relations between China and Europe. Against the background of the crisis, Chinese officials and analysts see a Germany that is increasingly powerful, a France that is weakened, and a UK that is marginalised. They therefore see Germany playing an increasingly decisive role in EU decision-making and therefore feel they have little choice but to approach Europe through Germany. “If you want something done in Brussels you go to Berlin,” says one Chinese official.

However, China could also be increasingly focusing on Germany in part because it sees Germany as being increasingly dependent on it for economic growth. Chinese analysts and officials point out that the German economy would not have bounced back after 2009 without it; according to one influential Chinese analyst, China is now “indispensable” to Germany. Thus, when they look at Germany, the Chinese see two long-term developments: increased German power within the EU and increased German dependence on China. This makes Germany a particularly attractive partner for China.

²³ See, for example, Wen Jiabao’s speech at the Chinese-German Forum for Economic and Technological Cooperation, 29 June 2010, available at http://www.gov.cn/misc/2011-06/29/content_1895991.htm.

²⁴ See Chris Bryant, “China’s Sany to acquire Putzmeister”, *Financial Times*, 30 January 2012, available at <http://www.ft.com/cms/s/0/7aecada0a-4a5e-11e1-a11e-00144feabdco.html#axzz1sCghtZFz>.

²⁵ On Chinese investment in Europe since the euro crisis, see François Godement and Jonas Parello-Plesner with Alice Richard, “The Scramble for Europe”, European Council on Foreign Relations, July 2011, available at http://www.ecfr.eu/page/-/ECFR37_Scramble_For_Europe_AW_v4.pdf.

²⁶ On the Chinese thinking behind the government-to-government consultation, see Wen’s speech at the Chinese-German Forum for Economic and Technological Cooperation, 29 June 2010.

²⁷ See Nele Noesselt, “Strategiewechsel in der chinesischen Europapolitik: Umweg über Deutschland?”, German Institute for Global and Area Studies, 2011, available at http://www.giga-hamburg.de/dl/download.php?d=/content/publikationen/pdf/gf_asien_1106.pdf (hereafter, Noesselt, “Strategiewechsel in der chinesischen Europapolitik”).

²⁸ See Keith Bradsher, “China Signals Reluctance to Rescue EU”, *New York Times*, 4 December 2011, available at <http://www.nytimes.com/2011/12/05/business/global/china-signals-reluctance-to-rescue-eu.html>.

²⁹ See Paul Geitner, “China, Amid Uncertainty at Home and in Europe, Looks to Germany”, *New York Times*, 22 April 2012, available at <http://www.nytimes.com/2012/04/23/business/global/china-invests-in-germany-amid-uncertainty.html?pagewanted=all>.

The post-crisis alignment

The bilateral relationship between China and Germany also appears to have been strengthened by the way that, since the beginning of the financial crisis in 2008, the two countries have found themselves on the same side as each other – and the opposite side to the US – in debates about the global economy. This is in itself a result of shared economic interests based on the somewhat analogous roles they play in the international system. Despite the huge differences between China and Germany in terms of demography and development, there are structural similarities between their economies. As Martin Wolf pointed out in 2010, they are “the largest exporters of manufactures, with China now ahead of Germany; they have massive surpluses of saving over investment; and they have huge trade surpluses”.³⁰

Based on these similarities, China and Germany have also at times during the last few years appeared to pursue a somewhat similar macroeconomic policy. Wolf argues that they have encouraged their customers to keep buying but also wanted to stop irresponsible borrowing – a policy that he regards as “incoherent”. They have both also exerted deflationary pressure and resisted pressure to rectify economic imbalances. There is considerable sympathy among Chinese analysts and officials for the German economic model and for Germany’s approach to fiscal policy. Thus there seems to have been what one might call a post-crisis alignment between China and Germany.

China and Germany also share a desire to reform financial markets and global economic governance. In a joint communiqué in 2010 on their own bilateral “strategic partnership”, which was created under Schröder and Wen in 2004, China and Germany said that their relationship had been strengthened through the result of attempts to overcome the international financial and economic crisis.³¹ They said that they shared important interests as the third- and fourth-largest economies in the world and as important trade and export countries, and in particular attached great value to the “real economy”. Germany also promised to “actively support” China’s bid for market economic status through the EU, although it has not yet taken any specific steps to do so.

The Chinese and German approach to the crisis has led in particular to disagreements between both of them and the US. Both countries have been critical of quantitative easing as a tool to reduce the crisis. Conversely, at the G20 summit in Seoul in 2010, both China and Germany opposed US plans to limit current account surpluses. Nobel Prize-winning economist Joseph Stiglitz said in an interview in 2010 that “anybody who believes China is a problem has to

believe Germany is a problem”.³² Observers continue to see Germany as “the China of Europe” because of the way it uses an undervalued currency to accumulate a trade surplus.³³ (In a sense, Germany may now be more of a “problem” than China, whose trade surplus fell from its peak of \$300 billion in 2008 to \$155 billion last year and is expected to decline further this year.³⁴)

Some Chinese analysts go even further in seeing parallels between China and Germany – and by extension the potential for alignment between them. They say that, just as China is a rising global power, so Germany is a rising power within Europe. Both have in the past for different reasons been reluctant to lead or take responsibility. But the crisis has increased expectations of both countries with which they are uncomfortable and has led to criticism of both – in particular by the US – for somewhat similar reasons. Chinese analysts say that it was during this period that Wen and Merkel became closer. “We were in a similar situation”, says one.

It is not yet clear whether this alignment between China and Germany will last. It is in part a function of the current symbiosis between the two economies of China and Germany described above. But as China increasingly provides competition as well as a market for German products, there could be increasing conflict between the two countries as Germany continues to struggle to remain competitive in industrial production. Germany could therefore see its economic interests as being more closely aligned with its traditional allies again. In addition, much depends on whether China continues to grow and whether it improves intellectual property rights and further opens restricted sectors of its economy such as banking and public procurement in a new phase of liberalisation.

A strategic relationship between China and Germany?

However, the increasingly close relationship between Beijing and Berlin goes beyond economic interests – or at least it does for China. In particular, it has to be seen in the context of global developments and in particular the US “pivot” towards Asia. China’s foreign-policy priority is the increasing strategic competition with the US, particularly since last November, when President Barack Obama announced that the focus of US security strategy would begin to shift away from Europe and the Middle East towards Asia and the Pacific. However, this strategic competition takes

³⁰ Martin Wolf, “China and Germany unite to impose global deflation,” *Financial Times*, March 16, 2010, available at <http://www.ft.com/cms/s/0/cd01f69e-3134-11df-8e6f-00144feabdc0.html>.

³¹ Deutsch-Chinesisches Kommuniqué, 16 July 2010, available at <http://www.bundesregierung.de/Content/DE/Artikel/2010/07/2010-07-16-deutsch-chinesisches-kommunike.html>.

³² Interview on 5 August 2010, quoted in Jana Randow and Holger Elfes, “Germany Ignores Soros as Exports Boom at Consumers’ Expense”, *Bloomberg*, 18 August 2010, available at <http://www.bloomberg.com/news/2010-08-17/germany-ignores-soros-as-exports-drive-record-growth-at-consumers-expense.html>.

³³ Andrew Moravcsik, “Europe After the Crisis”, *Foreign Affairs*, May/June 2012, available at <http://www.foreignaffairs.com/articles/137421/andrew-moravcsik/europe-after-the-crisis>.

³⁴ Simon Rabinovitch and Jamil Anderlini, “IMF set to recognise shrinking Chinese surplus”, *Financial Times*, 10 April 2012, available at <http://www.ft.com/cms/s/0/7e010a5a-8324-11e1-9f9a-00144feab49a.html#axzz1roFUodci>.

place in a context of economic interdependence between China and the US. The Chinese are increasingly wondering where Europe fits into this complex picture.

China has for a long time wanted a multipolar world in which US power is limited by the emergence of other power centres. Europe plays a key role in Chinese thinking about multipolarity.³⁵ Unlike the US, which has military commitments to, and bases in, China's neighbouring countries, Europe does not aspire to be a military actor in Asia. Thus China does not see the potential for strategic competition with Europe and sees the relationship as being a "win-win" one. China has therefore supported European integration in the hope that it would create a strong Europe that could be a counterweight to American power. In short, it seeks to undermine the idea of the West.

Europe in general and Germany in particular have economic interests in China. But Europe also has wider strategic interests – such as global governance, non-proliferation and regional security – which it pursues above all through the Atlantic alliance. This means that, although Europe in general shares China's view that there is no real strategic competition between them, it nevertheless often sides with the US in disputes with China, particularly on security issues. For example, the EU did not ultimately lift the arms embargo, notwithstanding calls to do so by Chancellor Schröder and French President Jacques Chirac in 2004. This disappointed China, which wants a Europe that is independent of the US and willing to challenge it on issues such as this.

The danger for Europe is that its increasing economic dependence on China could undermine these strategic interests and in particular the possibility of what has been called "transatlantic globalism".³⁶ Whether this danger becomes a reality will depend to a large extent on what type of multipolar order emerges in the world. Some German China experts such as Eberhard Sandschneider argue that Europe should accept the shift to a multipolar order and accommodate China.³⁷ But although Europe and China may share a desire for a "G3 world", Europeans have in mind a world of rule-bound global governance rather than spheres of influence.³⁸ In that sense, they should reject the Chinese vision of multipolarity.

In this larger strategic context, the Chinese may see Germany as the key player in getting the kind of Europe – and the kind of multipolarity – they want. This is partly because of the perception of increasing German power within Europe and increasing dependence on China, but also because of a perception that German preferences are closer to their

own. In particular, the Chinese see an overlap between Germany's reluctance to use military force and their own principle of non-interference. The most recent example is Germany's abstention on United Nations Security Council Resolution 1973 on the use of military force in Libya. China welcomed Germany's abstention, although Chinese analysts and officials recognise that Germany opposed the use of military force for different reasons than China.

Although many German officials see Libya as a one-off, Chinese analysts and officials see German preferences on the use of military force in general as being aligned with their own. They say that, as exporters, both China and Germany want above all to avoid conflict. "We share a realistic view of the world", says one Chinese official. "We have a common interest in keeping the peace", says an analyst. In other words, they do not see Germany as being implicated in the "new imperialism" of France, the UK and the US.³⁹ Thus the Chinese may increasingly see Germany as their most reliable partner in the West, not just on economic issues but also on strategic issues. In that context, they may see strengthening Germany as a way to split the West.

A crucial strategic issue from China's point of view is Taiwan. China supported German unification and consequently expects Germany to support China's desire for reunification – that is, the return of Taiwan to the People's Republic of China – in return. Chinese officials note that West Germany under Chancellor Konrad Adenauer did not follow the US in establishing diplomatic relations with Taiwan. Even with the current rapprochement between China and Taiwan, the fundamental situation remains unresolved and the US still maintains a legal commitment to supply Taiwan with sufficient defensive capabilities. Like the rest of the EU, Germany believes in a peaceful resolution of the Taiwan issue based on the "one China" principle. China would hope that, in the unlikely event of a conflict with the US over Taiwan, Germany would remain neutral or even support China's legal claims over Taiwan.

The question, from the Chinese point of view, is whether Germany can bring the rest of Europe along with it on this and other issues. Although Chinese analysts and officials see Germany becoming more powerful within Europe, they also realise that other big member states such as France and, to a lesser extent, the UK remain important. For example, while China welcomed Germany's abstention on Resolution 1973, Germany was not able to bring France along with it. In that sense, Libya was a failure of the kind of German Europe that China wants to see. Thus, while China is upgrading its bilateral relationship, it knows it may also need other member states. For example, it recently held a summit with Eastern European countries in Poland.⁴⁰

³⁵ See Noesselt, "Strategiewechsel in der chinesischen Europapolitik", p. 4.

³⁶ On "transatlantic globalism", see Richard Youngs, *Europe's Decline and Fall. The Struggle Against Global Irrelevance* (London: Profile Books, 2010), pp. 36–7.

³⁷ See Sandschneider, "Gestaltungsmacht China".

³⁸ See Parag Khanna and Mark Leonard, "Why China Wants a G3 World", *New York Times*, 7 September 2011, available at http://www.nytimes.com/2011/09/08/opinion/08iht-edkhanna08.html?_r=1&pagewanted=all.

³⁹ On Chinese perception of a "new imperialism", see David Shambaugh, "Coping with a Conflicted China", *Washington Quarterly*, 34:1, Winter 2011, p. 11, available at <https://csis.org/files/publication/twq11wintershambaugh.pdf>.

⁴⁰ See François Godement, "China and New Europe", European Council on Foreign Relations, 30 April 2012, available at http://ecfr.eu/content/entry/commentary_china_and_new_europe

Much now depends on how Germany responds to the Chinese perception of a strategic alignment. German officials point out that Merkel raised issues such as Iran and Syria in recent meetings with Wen. Nevertheless, Germany's pursuit of economic goals in its foreign policy makes it prone to strategic parochialism in its approach to China. There is a danger that, as Germany focuses above all on its economic relationship with China, it could overlook the broader strategic implications of China's rise. Whereas China is thinking more strategically about the emerging multipolar world, Germany seems above all to see China as a market for German exports. "Don't they see the bigger picture?" asks one American official in frustration.

A real European "strategic partnership" with China

Germany's instincts remain European. German officials in Beijing say they want "a strong Europe". Some fear the consequences of developing the bilateral relationship with China for German relations with other member states and say it is therefore in their interest to dispel the idea that Germany is "going it alone". They are also conscious that although Germany is the biggest European player in China, even it does not have sufficient weight on its own to influence an emerging superpower with a population of 1.35 billion. "In the end we're 80 million and shrinking," says a German official. "In the long term, however successful we are, we're small." In fact, as a German foreign ministry paper notes, Germany will make up only 1 percent of the world's population by 2025.⁴¹

In fact, because of the economic importance of its relationship with China, Germany was keener than almost any member state to develop a European strategic approach towards China. In the run-up to the European Council meeting in November 2010, German Foreign Minister Guido Westerwelle sent a letter to High Representative Catherine Ashton asking her to develop a "sustainable concept" for relations with the EU's "strategic partners". In particular, Germany urged Ashton to co-ordinate a "holistic" approach to China across a range of areas including foreign policy, economic questions, climate change, energy and raw materials. However, although Ashton delivered an outline of a new European approach in December 2010, there has been little follow-up by either the EU institutions or by member states.

What Germany wants is a comprehensive China policy that would include more systematic co-operation between member states and the EU institutions in order to identify and pursue key European interests and make full use of

the improved institutional scope for action provided by the Lisbon Treaty. In particular, Germany would like to see a "top-down" approach in which the High Representative would play a greater role in co-ordinating relevant European Commission directorates-general such as climate change and trade. Indeed, German officials see the "strategic partnership" with China as a crucial test for the Lisbon foreign-policy institutions.

The perceived failure of the EU in general and Ashton in particular to develop Europe's "strategic partnership" with China has led to a sense of frustration among German officials, who feel that other member states that don't have a big stake in the relationship, or see it through a less multifaceted lens, are holding them back. The Germans feel that, for them, the stakes are so high that they cannot wait for Europe to get its act together. Thus, on issues affecting its economic interests, Germany sometimes takes unilateral action. For example, Germany pursued its own bilateral agreements with Kazakhstan and Mongolia to diversify its supply of rare earths even though the EU was in the process of elaborating a strategy on raw materials. Germany also seems to be putting more energy into developing joint standards for electric cars with China than with its European partners.

This is a dangerous situation for both Germany and Europe as a whole. Merkel's visit to China in February, during which she appeared to speak on behalf of Europe, strengthened the perception that, at least in Beijing, Berlin may be replacing Brussels. German officials in Beijing already seem to have much better access than other member states and are invited to meetings and briefings more frequently than them. "The doors are open for us", says one German official in Beijing. The Germans would be prepared to send the EU delegation to some meetings and briefings instead of going themselves, but this is opposed by other member states such as France and the UK, which fears "competence creep".

Germany must not give up on Europe. Nor can its commitment to a European approach to China remain rhetorical. Rather, it should take initiative to actively develop the EU's strategic approach to China and contribute to the debate about reciprocity. At the same time, however, the rest of Europe and in particular France and the UK must now urgently find ways to help Germany be a good European in its relationship with China. In particular, they must fill the "strategic partnership" with content so that it is in Germany's interests to join a common European approach to China rather than increasingly pursuing its own special relationship. In particular, the EU should do three things.

⁴¹ Auswärtiges Amt, "Europa erklären – Europa diskutieren Ein Konzept für die Europa-Kommunikation 2012", February 2012, p. 7, available at http://www.auswaertiges-amt.de/cae/servlet/contentblob/610174/publicationFile/165147/120229_Strategie_Europakommunikation.pdf;jsessionid=906D7EF794ED73C97E52312C20BB2F68

Identify where Europe can help Germany

The six large member states (France, Germany, Italy, Spain, Poland and the UK) and several smaller member states have their own bilateral “strategic partnerships” with China. This creates a tension with, and in some ways duplicates, the EU’s own “strategic partnership” with China. But it is unrealistic to think that member states, including Germany, will now abandon their bilateral “strategic partnerships” with China. The EU therefore needs to identify exactly where it can bring added value in relations with China in order to develop a clearer and more effective division of labour between the EU institutions and member states. What issues should be dealt with at the EU level and what issues should member states deal with on their own? In particular, the EU needs to identify where it can help Germany.

At present, member states, including Germany, focus on business deals with China, while the EU institutions deal with many of the difficult aspects of the relationship with China, such as human rights and trade disputes. This makes it tempting for the Chinese not to take the EU seriously and engage less with it. However, there are areas where a joint approach would benefit Germany as well as Europe as a whole. This does not necessarily mean extending Commission competence but rather improving co-ordination among member states. In particular, the EU can bring added weight on economic issues such as investment rules, public procurement and access to raw materials. Similarly, if the EU had a code of conduct on Tibet, China would be less able to impose “soft” sanctions on member states whose leaders met with the Dalai Lama.

Strengthen the role of the EEAS

Other member states should also respond to Germany’s proposal for a comprehensive European approach to China. Germany is right to ask for a “top-down” approach. The European External Action Service (EEAS) should be empowered to co-ordinate policymaking on China, preparing issues for EU-China summits and ensuring consistency between different European Commission directorates-general such as climate change and trade. This would require the combined efforts of the High Representative and the presidents of the European Council and European Commission. In turn, they need an identical and well-prepared platform from which to approach China. The EU-China summit with the presidents of the Commission and Council would remain the place where this co-ordinated effort is pulled together.

Member states must also support co-ordination of their own approaches to China. Even large member states such as France, Germany and the UK now need Europe in order to have any influence on China. France and the UK should therefore give up their opposition to the EEAS, including in Beijing, or risk being cut out of the loop as Germany’s bilateral relationship with China displaces Europe’s embryonic “strategic partnership”. In practice, this means that the EU delegation, rather than member states, should meet with the

Chinese wherever possible. On issues such as Iran or other UN Security Council matters the big three could also be included in meetings. Likewise, some of the numerous bilateral dialogues with China should also be abolished or streamlined so they feed into a joint European approach. Member states should also support joint reporting from Beijing by the EU delegation.

Explore new formats

However, given the failure of the European approach and German frustration, it may now be necessary to also explore possible new formats for developing policy towards China. In particular, the EU should think about whether there is a need for new informal groupings that include some but not all 27 member states. Some German officials say that attempting to agree a policy among all 27 member states tends to lead to a lowest common denominator policy. It may therefore be necessary to think pragmatically about a compromise between a European approach that includes all 27 member states and the pursuit by member states of bilateral relationships with China. The critical question, therefore, is what the “critical mass” is. The answer may vary from one policy area to another. The EU could therefore experiment with new formats in narrow, tightly defined areas.

For example, in some cases, particularly Security Council matters, it may make sense to try out an EU3 format modelled on the approach that the EU has successfully used in negotiations with Iran. Conversely, the big three could also be invited to EU–China summits in order to add their weight to a joint European approach to China. In other cases, policy development could be driven by a caucus of the five to six member states with the largest economic stake in the relationship with China. In either case, the High Representative would have to play a pivotal role in including other member states – as Ashton has on Iran. Such an ad hoc approach to China policy would be controversial (“a different Europe”, as one German official put it) but it may be a necessary and pragmatic compromise between an EU27 approach and bilateralism.

The EU is now at a critical juncture in its relationship with China. Just as Europe was beginning to develop a more strategic approach towards China, the euro crisis sharpened competition between member states for Chinese investment. At the same time, against the background of the crisis, China is upgrading its bilateral relationship with Germany, which it increasingly sees as the dominant player in Europe and one whose economic dependence on China and strategic preferences make it a preferred partner. Germany remains committed to a more strategic European approach towards China but is beginning to take a more bilateral approach in some areas. The rest of Europe urgently needs to help Germany to be a good European by developing a real “strategic partnership” with China before it is too late.

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Acknowledgements

The authors would like to thank Thomas Koenig for providing invaluable logistical support and in particular for arranging meetings for us in Beijing and Berlin. Our colleagues Olaf Boehnke, Sebastian Dullien, Anthony Dworkin, Konstanty Gebert, François Godement, Jana Kobzova, Mark Leonard, Dick Oosting and Nick Witney read earlier versions of the text and provided very valuable comments. Council members Daniel Daianu, Lykke Friis, Sylvie Kauffmann and Ana Palacio also provided us with helpful feedback. Clemens Kunze helped with research.

We are grateful to Sven Schwersensky of the Friedrich Ebert Stiftung for his help while we were in Beijing. We would also like to thank Julia Coym, Ian Johnson, Roderick Kefferputz, Rasmus Abildgaard Kristensen, Alice Richard, Dirk Schumacher, May-Britt Stumbaum, Stephen Szabo, Gudrun Wacker and Jörg Wüttke for their help. Finally, this brief would not have been possible without the numerous Chinese, German and other European officials, analysts and business people who generously gave us their time and shared their experiences and views.

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© ECFR May 2012.

ISBN: 978-1-906538-55-2

Published by the European Council on Foreign Relations (ECFR),
35 Old Queen Street, London, SW1H
9JA, United Kingdom

london@ecfr.eu

Published in association with



Stiftung Mercator