



## Executive Summary

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*In what will be the most crucial elections in world politics this year, a new German Chancellor is set to succeed Angela Merkel after 16 years in office. The following piece looks at what stance Germany's new government may take within the evolving U.S.-China geopolitical rivalry.*

# How the German elections could shape Germany's foreign policy stance on the U.S.-China relationship

After 16 years of Chancellor Merkel shaping Germany's foreign policy, Germany's role in the world has evolved significantly. From leading the eurozone crisis, to moderating rifts in transatlantic relations during Trump's presidency, Germany under Merkel developed into a well-respected, moderating force in global politics. It serves as a crisis manager harnessing its normative and economic influence to rationalize global issues instead of escalating them.

With an almost stoic, business-like leadership style, Merkel stood for stability and continuity in the relationship with Washington, DC, despite the recent cooling in bilateral relations, while proactively engaging with China – putting geoeconomics first to balance economic interests with Beijing, while still deliberately favoring transatlantic priorities.

In an era of rising geopolitical tension between Washington and Beijing, Germany's elections are being closely monitored in both capitals. Washington and Beijing will need to consider a range of possible coalition scenarios when considering the impact on Germany's foreign policy, calculating the likelihood of three prospective candidates including the Conservatives (CDU/CSU), the center-left Social Democrats (SPD) or the Greens leading the Chancellery. Merkel's successor will have to carefully manage ties with Beijing and balance American pressure to confront China. In that respect, the elections will play a key role in providing fresh impetus to Germany's handling of its policy towards the U.S. and China.

## **Greens signal break with Merkel's China policy, but Conservatives and Social Democrats set to play a moderating role**

Beijing will certainly mourn Merkel's exit – and the resulting loss of predictability – but China seems to be remaining relatively serene about the risks, as it believes that Europe is more dependent on China than vice-versa. At the same time, China's more assertive foreign policy has increasingly led to China being considered a "systemic rival". German pro-business lobbies are raising the alarm about fair market access and are calling for the implementation of EU anti-subsidy measures and an international procurement instrument. Beijing's unveiling of the so called "dual circulation" strategy to secure domestic supply chains and curb its dependence on foreign markets adds to some concern that the German industry's competitiveness in China will decrease in the long run as China's leadership in future technologies grows, even if the plan is set to create incentives for foreign investors.

The current ruling CDU/CSU and SPD parties have so far sought to strike a balance between confrontation and cooperation with China. Both parties remain committed to good economic relations. However, there is also consensus among all democratic parties that China is a competitor, a cooperation partner, but also a systemic rival. The Greens appear to be most hawkish, having vocally opposed the Comprehensive Agreement on Investment (CAI) in the European Parliament. The Liberals (FDP), which also have a realistic chance of joining the coalition government, place particular emphasis on the protection of human rights – despite their pro-business stance – and are particularly aligned with the Greens. Even if the prospect of a Green Chancellor is waning, the Greens and/or Liberals are still expected to exert substantial influence in a coalition government, via the Foreign Ministry spot traditionally given to junior partners.

## **Germany will act tacitly and deliberately when it serves its interests**

The U.S. will certainly welcome a more assertive stance on China and will look to renew its attempts to seek alignment with Germany on a common approach. Yet a new government led by either the CDU/CSU or Social Democrats will continue to be a reluctant partner. Nevertheless, to accommodate transatlantic interests and avoid putting its relations with China at serious risk, Germany is more likely to deliberately take action on China at the EU level – via for instance this year's joint EU-U.S. targeted sanctions over alleged human rights abuses in Xinjiang. Germany, however, was hesitant to enter into fully fledged support for the harder stance of the U.S. towards China, as the U.S. was not willing to offer any trade off towards the EU and Germany that would counterbalance trade losses with China. Ultimately, retaliatory sanctions from Beijing led the EU to pause its ratification of the EU-China Comprehensive Agreement on Investment (CAI).

The U.S. has engaged in high-pressure, cross-administration campaigns to encourage its allies to push Chinese companies like Huawei out of their economies due to alleged national security concerns. Germany, seeking to preserve relations with both the U.S. and China, while simultaneously protecting its critical infrastructure, has taken a middle position. In 5G, it has enacted policies via the so-called "IT Security Law 2.0" giving the government the means to constrict "untrustworthy" providers. Germany under Merkel has so-far shunned excluding Huawei from its 5G rollout – leaving it up to the next government to navigate. But implementing the rules will require political backing, which won't be an easy task given the likely political fragmentation. With vocal China critics such as the Greens or Liberals (FDP) poised to participate in the new governing coalition, companies like Huawei could be in the crosshairs, as both parties – in contrast to CDU/CSU and SPD – decidedly reject the involvement of Chinese companies in the expansion of digital infrastructure.

### **What to look out for**

As calls for diplomatic boycotts continue to grow, the new German government may already face its first test at the Winter Olympic Games in China in February 2022. Beijing and the international community will closely monitor Germany's handling of the situation, as pressure over human rights becomes more acute. The event will also have major ramifications for businesses, particularly in high-profile sponsorship roles, which will need to anticipate serious reputational risks. In October 2022, the CCP is set to hold its 20<sup>th</sup> Party Congress, during a time when Xi Jinping is being considered for an unprecedented third term in China. It is therefore likely China will be less willing to make compromises on foreign policy issues in 2022, and will likely assertively reject any criticism of its domestic policies. In view of the changing geopolitical dynamics between the U.S. and China, German businesses – perhaps now more than ever – need to be cognizant of where Germany is set to stand, and of the associated risks.

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**Thank you.**