



MERKEL'S CHINA LEGACY

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Angela Merkel's time as the Chancellor of Germany is soon coming to an end. An unofficial mainstay of the European Union, she leaves office having helped put in place many of the structural aspects enabling the EU to function as a single actor. At the same time, Merkel leaves behind a legacy of Germany being at odds with many other member states with regards to a major challenge facing the Union: the rise of China as a systemic rival. When Merkel first took office, many Western countries looked to China with hopes of political liberalization, which might come about as a result of the country's increasing economic growth.¹ However, as she leaves office, China has turned towards more autocratic governance, and many European observers look to China with concern², not just for the sake of human rights but also as a systemic threat to Europe.³

Introduction

Angela Merkel spent her formative years in East Germany, studying Russian and coming of age within a communist system.⁴ Partly due to these experiences, Merkel often emphasizes the importance of maintaining good relations with both the East and the West.⁵ This has often been held up as the motivation for her comparatively supportive stance towards maintaining close relations with countries like Russia and China, even though other Western leaders might wish to distance themselves from or introduce sanctions against human rights abusing countries.⁶ Merkel's supportive stance has sometimes been characterized as valuing economic interests at the expense of a more principled stance on rights.⁷ However, journalistic portraits of Merkel

published when she first became chancellor in 2005 do not depict her as a calculating “business before everything” leader. In the wake of a meeting with the Dalai Lama in 2006, she was described as overly idealistic and chastised for a supposed tendency to hurt German business interests due to her focus on “softer values.”⁸ Such criticisms were echoed when she derailed an effort to lift an EU-wide ban on arms sales to China, initiated by her predecessors, first introduced in the wake of repression of students on Tiananmen Square, the 4th of June 1989.⁹

Sino-German Relations in Review

Historically, China was a key market for the German armament industry in the interwar period.¹⁰ After the end of the First World War, post-Qing China

was in a period of upheaval both politically and intellectually. The Versailles treaty sparked the intellectual May fourth movement, which sought national modernization. Politically China was in a “war-lord period” without any single political entity exercising unified control across the whole country. The Kuomintang emerged as a strong power in the 1920s and ultimately managed to unify China, in part aided militarily by both German armaments and know-how.¹¹ However, during the Second World War, Germany sided with China’s enemy, Japan. Soon after the war, the Chinese Communist Party (CCP) took power in mainland China, and Beijing got caught up in the increasingly divided world of the Cold War. The industrially strong West Germany did not engage meaningfully with the People’s Republic of China, whilst East Germany largely maintained closer ties with Moscow than Beijing.¹²

Today, however, Germany has by far the strongest economic ties with China amongst the EU member states.¹³ Ever since Helmut Kohl’s first visit to China in 1984, German industry and car manufacturers, in particular, have benefited from access to the Chinese market and cheap labor.¹⁴ Given the car industry’s status as a cornerstone of the German economy, alienating Beijing leaves not only a handful of car companies vulnerable to potential political retribution from China but Germany’s economy as a whole. As China has come to be increasingly seen as a growing threat by European security officials, it might appear odd that Berlin would allow itself to become entangled in a dependency relationship with China. However, when Merkel first took office, she carried on a longstanding policy of “Wandel durch Handel”, change through trade.¹⁵

The rationale of “Wandel durch Handel” somewhat paradoxically rests upon the notion that accepting the status-quo in a partner country can help foster political change in the long term through engagement, trade interdependency and exchanges of ideas. The concept was initially developed in West Germany as a strategy for reunification with East Germany.¹⁶ Increasing economic cooperation with the East was projected to raise living standards and close the gap between the two countries in order

to ease a later unification process. This policy was carried over into German interactions with large and culturally different countries like Turkey, Russia and China.¹⁷ However, despite increased trade and social interactions, these countries have so far seen little in terms of dynamic change towards transparent or pluralistic governance in the way that advocates of Wandel durch Handel may have envisioned. In China, the notion that rising living standards or cultural exchange would produce a trend towards democratization or strengthened rule of law has not materialized.¹⁸

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Western engagement has not managed to change China’s political trajectory towards a more democratic system. Rather the astounding wealth and know-how that has flowed into China from countries like Germany through trade have increased the authorities’ ability to govern in an autocratic manner whilst changing China’s economic structures to a more capitalist setup.¹⁹ Furthermore, the Chinese economy has developed from solely focusing on low-level manufacturing to competing with the West on highly sophisticated technology like robotics. This became clear to the German political and business elite when the Chinese company Midea was able to orchestrate a hostile takeover of the German robotics firm Kuka in 2016.²⁰ Berlin had wished to prevent the takeover but lacked a legal framework allowing intervention.²¹ This event reflects China’s evolution from an aid-receiving country to a potential competitor in high-end manufacturing capable of buying up strategically important European companies under economic duress.²²

The emergent realization that China will not simply develop into a like-minded democracy, and is instead

growing overtly hostile to the EU's core values, has coincided with Merkel's chancellorship. Her time in office has also seen a backlash against democracy on a global stage, with other German trading partners, such as Turkey and Russia, having seen regression rather than progress.²³ The Wandel durch Handel doctrine has thus been called into question,²⁴ both by commentators from other EU member states but increasingly also from within Germany.²⁵

EU member states who have wished for stronger responses to the Chinese government over human rights violations or unequal trading practices have accused Berlin of blocking the EU from acting in concert.²⁶ It appears that during the early years of Merkel, German business leaders did not want politics to threaten their interests in China, lobbying against taking a strong line on human rights questions and even issues relating to unfair business practices.²⁷ But towards the end of Merkel's time in office, German businesses appear to have changed their tune, advocating for politicians to, at the very least, oppose unfair business practices employed by China. An example of this is how the powerful organization for German industry, the Bundesverband der Deutschen Industrie (BDI), long seen as a strong pro-China lobby in Berlin, has come out with a strategy paper clearly saying that the time has come to start leveling out the playing field for German businesses operating in China.²⁸ Underlining how much China has grown in financial and technological power, the BDI argues that Beijing should no longer enjoy the beneficial trade terms of the last few decades.

The Comprehensive Agreement on Investment

Many of the issues raised by German businesses were consequently addressed by the new Comprehensive Agreement on Investment (CAI). The development of the CAI, which was designed to serve as a trade agreement between China and the EU, was strongly supported by both German industry and Merkel.²⁹ After seven years of prolonged negotiations, the CAI was signed in principle by representatives for the EU and China in December of 2020, at the very close of the German presidency of the European Council.³⁰

If ratified by the EU Parliament, the CAI would be the first major trade agreement between the EU and China. The framework for Sino-European trade was previously based on the Trade and Economic Cooperation Agreement signed between China and the European Economic Community (EEC) in 1985, along with several bilateral agreements between individual states and China.³¹

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A common view of why Merkel is so keen on the CAI is that she is prioritizing boosting the German economy. She is often described as continuing to adhere to a Wandel durch Handel approach to China and failing to respond to a potential threat emanating from China.³² The fact that Merkel signed the CAI despite reports of abuses in Xinjiang and the fact that the CAI refrains from taking a strong stance on forced labor is cited as proof that Merkel is willing to compromise on EU values.³³ If respect for human rights is to be a central component in European trade agreements, as many in Europe have argued, then the CAI certainly has its shortcomings.³⁴

However, when regarded through a trade-focused lens, the CAI is ground-breaking in the number of concessions Beijing was willing to make. The CAI is the first time China has included negative lists in an investment agreement, which substantially opens up their market.³⁵ It is also the first time ever China has accepted clauses on transparency of subsidies to state-owned enterprises (SOEs).³⁶ It is noteworthy that the Trump administration's four-year-long push to level the playing field for US businesses in China never managed to make the breakthroughs the EU, with Merkel's support, managed with the CAI. Even if the future of the now CAI looks uncertain, the willingness to compromise might indicate that China

responds better to the calm and non-confrontational approach spearheaded by Merkel than the harsh and confrontational approach employed by the US.

The CAI may well not take effect, as the ratification process has been put on hold by the European Parliament after an exchange of sanctions between the EU and China over human rights in Xinjiang.³⁷ Despite this, the successful signing of the agreement in December may establish a precedent and has the potential to cement Merkel's approach to dealing with China even after her time in office.

Merkel's EU legacy

Merkel has been a leader in uniting the EU and endowing institutions in Brussels with greater powers. For example, Merkel took a leading role in reinventing the failed European Constitution as the Lisbon treaty soon after entering office.³⁸ The Lisbon treaty did, amongst other things, provide the EU with its own foreign office, the European External Action Service (EEAS). The existence of the Union-spanning EEAS would logically lay the foundations for EU member states' foreign policies to gradually converge.³⁹ With Germany's great economic power, Berlin could have chosen to retain as much political power as possible and oppose greater EU integration along the lines of the UK. Yet nevertheless, Merkel has been a staunch supporter of the European project and an ever closer union. Of course, Germany benefits significantly from the EU, and its strong economic and political position grants Berlin an influential voice within the Union.⁴⁰ However, Merkel's dedication to managing international issues through the EU is still laudable given the extra complexity and difficulties in reaching consensus.

A case in point of divergent European approaches to foreign policy is relations with China. Some leaders in the EU wish to move closer to the ideologically like-minded US and distance themselves from an increasingly authoritarian, human rights disregarding and seemingly threatening Beijing.⁴¹ Merkel's argument seems to hinge on the idea that if Europe is to be heard and if its interests are to be protected, Brussels has to develop a strong voice of its own.⁴² The EU single market is one of the biggest

economies in the world, and as long as member states stand united, they can leverage this economic power in their foreign relations. What Merkel seems to fear, however, is that if Brussels moves too close to Washington's position, the EU may be viewed merely as a weak US ally by both Washington and Beijing. Consequently, this would make it more difficult for Brussels to make sure its interests are heard in important negotiations.

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Merkel sees a functional relationship with Beijing as a key in keeping the EU's voice strong. However, this is not something that all European leaders agree on, posing a dilemma for the German chancellor. One option would be to continue the push for good relations with China, which might make the EU more independent from the US' foreign policy course. However, pushing for good relations with China might become ever more divisive within the EU, thus undermining its ability to act in unison on foreign policy issues. If the EU can manage to act as a united and independent actor, it would have greater agency in deciding which fights to take on as well as whether the costs of such actions are acceptable. The confrontational tone of the Trump administration and the ensuing exchange of sanctions has had a significant impact on the US economy, something Berlin and Brussels may wish to avoid.⁴³ But the EU has to be united behind the idea that good relations with Beijing are preferable for Merkel's approach to work since whenever the EU is divided, it is weak.

Conclusion

With Beijing angering both EU diplomats and the public with wolf-warrior diplomacy, aggressive rhetoric's regarding the Covid-19 pandemic, and increasingly repressive tactics in Xinjiang and Hong

Kong, political support for good relations with China is waning in Europe.⁴⁴ At the same time, the Biden administration has provided new hope to many EU leaders that the US will return to a more predictable and pluralistic foreign policy course, making EU leaders more willing to align their China strategy with the US. One stumbling block in Brussels' approach to Beijing is that adopting a China policy that is independent of the US but simultaneously polarising within Europe may ultimately undermine the goal of presenting a strong united voice taken into account in international negotiations. If Merkel or her successors wish to avoid Brussels being viewed as a sideshow to Sino-American rivalry, they will need to strike a careful balance.

Whoever takes over as German chancellor after Angela Merkel will have to deal with this dilemma. At the time of writing, two candidates, with very different approaches to this question, seem likely to succeed Merkel – the Green Party's Annalena Baerbock and the Christian Democratic Union's (CDU) Armin Laschet.⁴⁵ Laschet has said he sees nothing he wishes to change regarding Merkel's China-policy, although this may be motivated by a desire to assuage his political base in North Rhine-Westphalia, where the automotive industry is a major economic and political factor, and relations with China are consequently important. He has been accused of having a 'business-über-alles' approach towards engaging with authoritarian states like China and may well take a dovish approach towards China – a potential source of friction within the EU.⁴⁶ The Green Party's Baerbock, on the other hand, positions herself closer to more critical EU allies, seeing a strong authoritarian China as a threat and advocating for a strong and unified EU approach to cope not only with diplomatic issues but also international challenges such as climate change and non-proliferation.⁴⁷ Whoever wins the upcoming election will play a central role in staking out a future foreign policy towards the systemic rival, China. ■

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