

# **Changing Parameters of Interdependence: The Triangle of German-Chinese-U.S. Relations**

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The twenty-first century is a century that is and will be increasingly marked by changing patterns of interdependence, influence, and interests among states, regions, and non-state actors. The structures of global political economic and social interactions will become at once more interconnected, while also adjusted to account for the changing equations of power, legitimacy, order, and principles. The trend is toward a diffusion and diversification of power and influence with competing versions of what the world should be. That world will look different from the world of the second half of the twentieth century, for tomorrow's world will not have one center of gravity or one center of overwhelming power and influence. It will be a world with competing ideas about what both a global and domestic order should be based on. That world will be shaped, among others, by three major players: the United States, China, and Germany within its European framework.

It is thus very important to understand how these three countries interact, how their views of each other are molded, what expectations toward each other regarding both cooperation and conflict circulate in the triangle, and what can be anticipated in the future that would impact that triangle. This essay addresses some of these issues offering some insights, while leaving questions still to be pursued.

## **The Triangle of Interests**

Relations between countries are based on the mixture of national interests, perceptions of global order, and the perception of common goals and/or conflicting strategies. The significance of those relations can be measured by economic advantages, shared political objectives, or societal common denominators such as shared values and similar institutions. They can also be measured by conflicts in terms of perceived threats or dangers to national interests. And both of those dimensions can run together.

Relations between the United States and China as well as between China and Germany run parallel in some ways but differ significantly in many others in terms of both scope and platforms of engagement. These differences have to do with the global roles each nation ascribes to themselves and to each other. It also has to do with the global governance structures that have evolved over the last few decades and with which China in particular does have differences. Germany shares some of the same perspectives as Washington, but not all of them. That is due to the perspectives of a country that is situated in a very different geopolitical situation and has a different self-defined role. The triangle of Germany, the U.S., and China is thus not perfectly aligned with their respective national interests. Yet there is clearly ample room to explore common denominators.

## The Evolution of Policy, Power, and Partnership

As historians always remind us, the past is prologue. The past of the three countries—Germany, the U.S., and China—are vastly different in terms of both actual facts as well as the national narratives that have been woven around and through history. Understanding those narratives allows insights into their relations today.

China—the oldest country in the triangle under review—can claim the status of one of the oldest continually existing countries in the world. As Martin Jacques has argued,<sup>1</sup> over a period of over two-thousand years, China has existed in various combinations of political order—united, disunited, unified, and occupied—but always understood as China or otherwise labeled a civilization-state, bound together more by race, culture, and history than by a political entity. This becomes relevant in understanding how China views its role today on the global stage and the stage itself. It is also relevant in understanding how it views its own governance model and the primacy of its unity served by that model. China as a nation state came into play through a very different passage than Germany and the United States. As Henry Kissinger argues:

In Europe the Westphalian system was an outgrowth of a plethora of de facto independent states at the end of the Thirty Years War. Asia emerged in the modern era without such a distinct apparatus of national and international organization. It possessed several civilizational centers surrounded by small kingdoms with the subtle and shifting set of mechanisms actions between them [...] The Chinese idea of World Order differs markedly from the European experience based on the multiplicity of coequal states.<sup>2</sup>

Germany's path out of the Westphalian system was marked by over two centuries of being understood as a collection of kingdoms, which came together as a nation state toward the end of the nineteenth century. It then become a dominating force in Europe in the first half of the twentieth century, only to be defeated, divided, and occupied twice before achieving the unity it enjoys today.

The United States has its version of history. Its narrative is one that stresses its unique and indeed special, if not exceptional, path as a country not only as a state like others, but also as a republic with universal values. In this context, there is a parallel with the much longer path China took to today. These paths are further comparable given that China also sees itself as unique yet, as Kissinger pointed out, more self-confined than universal.<sup>3</sup> Each of these paths tells us much about how and why both the policies and perceptions of all three countries differ and overlap.

When examining the countries' policies toward each other, the more recent history is significant.

In the case of China, the division of Germany after World War II marked Sino-German relations during the Cold War. The Federal Republic of Germany was allied with the U.S. and had hence less political engagement with Beijing, whereas the German Democratic Republic was allied with the Soviet Union and saw China as an ally. Following unification in 1990, along with the

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<sup>1</sup> Martin Jacques, Martin. *When China Rules the World* (New York: Penguin, 2009).

<sup>2</sup> Henry Kissinger, *World Order* (New York: Penguin, 2014), 220.

<sup>3</sup> *Ibid.*, 226-227.

opening of China under Den Xiaoping a decade earlier, the Federal Republic of Germany expanded its trade exponentially, which continued rapidly into the new millennium. In turn, China became an increasingly important trade partner, as it also opened up networks of contacts with Germany in other sectors in the cultural and educational fields.

In the case of the U.S., China had been a target of American trade policy throughout the period before WWII and its role transformed from being an ally against the Japanese to an enemy during the Cold War, particularly after the Korean conflict. It was only after the opening of relations twenty years later under the Nixon administration that China gradually became a major focus of U.S. economic interests.

National interests are not static and the last twenty-five years have witnessed significant changes in the definition and pursuit of national interests in all three countries toward each other. Yet there is what is called “variable geometry” in their relationships, meaning that they have different areas and degrees of relevance across a wide agenda.

### **The Economic Dimension**

China is a global example of rapid socio-economic development during the past three decades. It has become an enormous economic magnet for both the U.S. and Germany.

The close economic and commercial relationship between Germany and China has continued to grow in recent years. This is evident given that German chancellor Angela Merkel has visited China eight times since the beginning of her tenure in 2005, bringing with her delegates from top German companies, as well as her cabinet, each time. China has also increased its interaction with Germany and elsewhere within Europe. The slowly maturing market in China represents an enormous source of demand for consumption, of which German companies have been eager to take advantage. China’s appetite for German industrial goods, particularly in the fields of mechanical engineering, auto-manufacturing, and renewable energy, has been fueling the German export engine.

Germany is China's biggest trading partner and technology exporter in Europe and the amount of German investment in China ranks second among European countries. In turn, China is Germany's second largest trading partner outside the European Union, after the United States. There are now over 5,000 German companies of various sizes operating in China with investment totaling €40 billion. Particularly German carmakers, whose collective exports to China represents a third of Germany’s total exports to the country, derive a significant amount of revenue from the Chinese market. At the same time, Chinese businesses that are expanding into international markets now see big opportunities in Germany. There are currently some 900 Chinese companies operating in Germany, with approximately €1.4 billion in investment.<sup>4</sup> Chinese wealth funds are also looking to Germany to diversify their foreign portfolios and increase earnings. Mutual benefits in economic activities serve as concrete ground for close

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<sup>4</sup> German Chamber of Commerce in China, *German Business in China: Business Confidence Survey 2015* (Beijing: German Chamber of Commerce in China, 2015), [http://china.ahk.de/fileadmin/ahk\\_china/Marktinfo/Studies/2015\\_BCS\\_China\\_Report\\_EN.pdf](http://china.ahk.de/fileadmin/ahk_china/Marktinfo/Studies/2015_BCS_China_Report_EN.pdf) (accessed 28 January 2016).

bilateral relations with Germany in multiple sectors. Chinese acquisitions of successful German firms in the computer, engineering, and logistical sectors have been expanding quickly during the past ten years.<sup>5</sup>

Beyond trade and investment, demand for technological innovation is driving China toward closer cooperation with Germany. The bilateral agreement between Germany and China on innovation and development cooperation, signed during Angela Merkel's most recent visit to China, promises to tie China's "Made in China 2025" initiative with Germany's "Industry 4.0" strategy.<sup>6</sup>

On the U.S. side, with the total trade volume of \$521 billion in 2014, the United States is China's biggest trade partner, far surpassing Germany's \$161.56 billion bilateral trade with China. Total U.S. foreign direct investment (FDI) in China stood at \$65.77 billion at the end of 2014, while the growing flow of Chinese FDI in the United States is estimated to have reached \$11.9 billion. China's investment in public and private U.S. securities totaled \$1.8 trillion, making it the largest creditor to the United States. (China held \$1.305 trillion of U.S. treasuries at the end of October 2015, once again surpassed Japan as the top creditor of the U.S. government.)<sup>7</sup> While the U.S. has an enormous trade deficit with China, many industries have become increasingly dependent on the Chinese market.

Like Germany, the U.S. car industry is increasingly invested in China. General Motors attributes one-quarter of its global sales to China. By any measure, the economic ties between China and the U.S. are becoming ever more multidimensional. The two countries are each other's second largest trading partners, and U.S. investment and exports to China have exploded in the last decade.

### **The Geopolitical Dimensions**

There is no doubt that the economic interests shared by Germany and the United States in the massive Chinese market are extensive. However, the United States has pursued a second policy track with the goal of enhancing international free trade in Asia as well as financial governance structures that are separate from its China connection. Its groundbreaking Trans-Pacific Partnership (TPP) has not actively courted China's participation. Instead, it is seen by many as an opportunity to neutralize China's power in the global trade framework. China is a member of the major international financial institutions. But China's assertion of its power and influence in Asia has created significant concerns for the United States and some of its traditional allies in the region. The perception reflects the view that China is challenging the world order the U.S. and its allies created during the past half century and wish to maintain. American hesitancy to offer China more inclusive participation in some of its international organizations and regional structures has prompted China to create parallel institutions and forums, in which it could greatly

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<sup>5</sup> David Shambaugh, *China Goes Global* (New York: Oxford University Press, 2013), 182.

<sup>6</sup> Gabriel Dominguez, "'Made in China in 2025'-The next stage of China's economic rise?" Deutsche Welle, 2 June 2015, <http://www.dw.com/en/made-in-china-2025-the-next-stage-of-chinas-economic-rise/a-18490377> (accessed 19 December 2015).

<sup>7</sup> Morrison, Wayne M. *China-U.S. Trade Issues*. Congressional Research Service, December 15, 2015.

influence or even dictate the agenda as well as the outcome. The most prominent example is the recent creation of the China-led Asian Infrastructure Investment Bank (AIIB). The United States chose to actively lobby against this initiative, expressing doubts about its independence and effectiveness, while Germany, among many others in Europe, chose to join it, not only acknowledging China's influence in international development and global financial governance, but also seeing the AIIB as an opportunity to open new doors for potentially constructive cooperation between the West and China, as well as other developing countries.

In contrast to China's relations with Germany, its relations with the United States reflect the increasing number of arenas in which major stakes in a global framework lead China and the U.S. to a range of competitive issues. Serious arguments and accusations between Washington and Beijing over issues like cyberspace, global governance, currency policies, or engagement in security decisions perceived as direct threats to each other, such as in the South China Sea, are all indications of the trend toward two global powers attempting to recalibrate their own policies and perceptions of each other in the framework of changing global equations of power and influence.

In recent years, China's growing willingness to exert its will and interests in its immediate neighborhood as well as distant corners of the globe has sparked tension and even conflicts with the United States and its Western allies. China has been flexing its muscles in a variety of ways through development aid, trade deals, energy exploration, and military relations.

The dispute over the Senkaku Islands (Diaoyü in Mandarin) continues to be a source of political tension between China and Japan. Previous escalations of the dispute proved greatly disruptive to the region's booming economic productivity as well as the uneasy cooperation between East Asian governments. China's forceful exertion of its sovereignty over much of the South China Sea not only provoked vigorous protests from neighboring Southeast Asian countries, but also attracted condemnation from the United States. And there is a continuing point of potential friction in dealing with the Taiwan issue.

China is increasingly seeking alternative platforms for conducting international affairs. As a result, there has been a plethora of efforts by China to establish parallel international organizations that seek to elevate its status and amplify its voice. The Shanghai Cooperation Organization (SCO), founded in 2001 with the support of Russia, provides the stage for China to formulate its policy regarding its political, economic, and military interests in the region according to its own strategic considerations. Similarly, the AIIB, seen by some as a rival to the IMF, the World Bank, and the Asian Development Bank, represents a very strategic notion, that by engaging China on its home turf, there is a better chance of establishing conventional rules for the new international organization and nudging China toward the position of a responsible stakeholder in international affairs.

China's growing power in Asia-Pacific is increasingly perceived by many in the United States as a challenge to U.S. dominance in the region. Yet countries all over Asia-Pacific and in Europe, including Germany, are reevaluating China's policies and motivations as it seeks to expand its political and economic influence. One of the more recent illustrations is the concept of "One Belt One Road," which is presented as a community of common destiny among many countries and

regions, with a clear China-centered fulcrum. The initiative is aimed at developing closer ties with the Euro-Asian network of countries and in particular with EU members. Given the central role Germany plays within the EU as the largest trading partner for China, and its extensive stake in the Chinese economy, the connections between Berlin and Beijing are of critical strategic value to both sides of the German-Chinese relationship.

Despite having more limited means of strategic influence in the Asia-Pacific arena, Germany has the capacity to use the leverage of its economic ties and those of the EU with China to sustain its emphasis on democratic and humanitarian principles. It has run into conflicts with Beijing over differences regarding diplomatic issues such as Chancellor Merkel's meeting with the Dalai Lama or economic issues such as intellectual property rights and human rights, among other contentious issues.

### **Common Issues & U.S. Interests**

The different approaches from Germany and the United States toward China in the realm of international affairs present fundamental questions: what kind of global role do they envision for China? Is China a potentially constructive partner or a perpetually antagonistic instigator? How much benefit would China bring to the table? How much adjustment is needed to accommodate a more active China? Equally relevant is how much does China need to be challenged in its increasing drive for power and influence in both regions and on the global stage.

For the U.S., one answer involves recognizing a transforming global order—despite objections in Washington over the fifty-seven countries that joined the AAIB, which was an unusual public critique of U.S. policy. Another answer is the need to cooperate with China in dealing with challenges in volatile regions such as Africa and the Middle East, in cyber security, and on climate change. China has resources and capabilities that can benefit the development of other nations. A further answer, however, involves the recognition that China's increasing political capacity is not seen only as a benevolent initiative in and around Asia, but also that it represents a model of governance that clashes with that of Western democracies, with repercussions for both economic relations and diplomatic affairs. There is also nervousness in the region about China's expansion of its military capacities. The U.S. has responded to this with expanded relations with several countries in the Pacific Rim. Given the current vast superiority of the U.S. naval presence in the Pacific, the areas in which there is most potential for conflict lie in the South China Sea, through which half of global trade sails, and in East China Sea, which involves relations with Japan. These are areas of confrontation that need to be dealt with through diplomatic channels to avoid military friction.

For Germany, there is also a dichotomy of perspectives toward China. While the economic opportunities and societal networks have been expanding, there is also a more cautious approach in dealing with China on a number of points. One is the parameter of legal dealings with the Chinese government, which cause frictions in business circles regarding concerns about intellectual property rights and access to markets. Another stems from Germany's position on human rights issues, which has been raised in individual cases and plays a role in the German government's exchanges with Beijing. As an integral part of the European Union, Germany was part of an EU Commission report in 2006 on EU-China relations, which singled out specific

concerns about Chinese policies across a broad area of issues.<sup>8</sup> Yet the recent visit of President Xi Jinping to Berlin underscored the priority China places on relations with Germany in Europe, as do the frequent trips by Chancellor Merkel to China.

Neither Germany nor the United States can ignore that China now wants more political influence to accompany its expanding economic prowess. At the same time, China's expanding trade and investment reach is an inevitable trend in its interaction with American as well as German economic and political interests in parts of the world, including Africa, the Middle East, and South America.

Despite perceived conflicts of interest, there are areas where engaging China could bring much benefit. China's contribution to infrastructure development, most recently in the form of the AIIB, should be seen as an opportunity in an era when most Western governments are strapped for cash and anticipating the next crisis in the horizon. The AIIB may very well provide much-needed resources for economic development in the Asia-Pacific region. The recent admission of the Chinese Renminbi as a world reserve currency is a good example of acknowledging and incorporating China's economic and financial capacity into the existing framework of global governance. In the area of international security and conflict resolution, the nuclear negotiations with Iran saw very positive persuasion from China in support of lifting sanctions and pulling Iran back into the international community.

The United States and Germany are equally focused on a future in which relations with China continue to expand and deepen in the context of the national interests of both countries, as well as that they could lead China to realize that it can and must play a role in global challenges. However, both countries are interested in promoting democratic values and maintaining a rule-based international system for the benefit of global governance—as they understand it. To accept the reality of emerging multi-power centers in the world, the United States and Germany need to embrace the idea of engaging China. On the other hand, China also needs to accept the reality of engaging Germany and the U.S. on the basis of an international community of norms and rules, which may be a work in progress but cannot be ignored.

Different approaches taken by Berlin and Washington are not surprising; nor are they necessarily contradictory. The United States sees China as a challenger to its power and influence in Asia-Pacific. China's growing outreach in other regions also increasingly makes it a new powerful player. While the United States pivoted to Asia in an attempt to curb Chinese influence in the region, Germany has not demonstrated that form of strategic thinking with regard to its relations with China. However, as China becomes a major player in central Asia, the Middle East, North Africa, and even Europe itself, Germany will need to formulate and articulate its strategy toward China in the context of its own national interest and EU cohesion.

Germany, together with the U.S., needs to again demonstrate leadership in forming a transparent dialogue with China. No other European leader has met more with Chinese leadership than

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<sup>8</sup> European Commission. *China-Europe: Close Partner, Growing Responsibilities and Competition and Partnerships: A Policy for EU-China Trade and Investment*. October 24, 2006. Accessed 20 December 2015

Angela Merkel. No other country is as important to Beijing as the United States. That underscores the importance of dealing with China in a mutual beneficial triangle of interests and goals.

The emergence of a stronger, more dynamic and ambitious China on the global stage is only one dimension of a global transformation, reshaping a world that will be marked by multiple centers of power in the twenty-first century. As Charles Kupchan has framed it:

It is doubtful, however, that any country region or model will dominate the next world, the twenty-first century will not be America's, China's, Asia's or anyone else's; it will belong to no one. The emergent international system will be populated by numerous power centers as well as multiple versions of modernity...A global order if it emerges, will be an amalgam of diverse political cultures and competing conceptions of domestic and international order.<sup>9</sup>

It is, therefore, much more important that there is an open dialogue among nations like China, Germany, and the United States, each with their respective legacies and narratives, but all as important pillars in sustaining a peaceful and legitimate international order. Henry Kissinger has defined that order in the following way:

A world order of states affirming individual dignity and participatory governance, and cooperating internationally in accordance with agreed-upon rules, can be our hope and should be our inspiration.<sup>10</sup>

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<sup>9</sup> Charles Kupchan, *No One's World* (New York: Oxford University Press, 2012), 3.

<sup>10</sup> Henry Kissinger, *World Order* (New York: Penguin, 2014), 372.