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Trajectory of Deglobalizing Forces: How Resilient Is Germany?

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It is now a truism that we are living in turbulent times characterized by multiple overlapping crises that are transboundary in nature. Almost 15 years ago, a seemingly confined crisis on the United States' housing market brought the global financial crisis to the brink of collapse, leading to the most severe economic crisis since the Great Depression of the 1930s (Tooze, 2018). The Global Financial Crisis of 2007 and 2008—as well as the Euro Crisis of 2009 and 2020—underlined the fragility of largely deregulated and highly interconnected financial markets. The economic and social repercussions of the financial crises contributed not only to the United Kingdom's withdrawal from the European Union but also to the election of Donald Trump as president of the United States in 2016. Both events are two important watershed moments in discussions about deglobalization due to the intentional restrictions on economic transactions and the weakening of international institutions, such as the European Union or the World Trade Organization (WTO) underpinning economic globalization.

Deglobalization may have not only been caused by deliberate protectionism but also by broader social trends such as global health crises or even large-scale wars. The COVID-19 pandemic led to a sharp downturn of economic activity, both due to demand-side as well as supply-side factors that were caused by lockdowns and global value-chain disruptions. As a result of the Chinese government's strict zero-COVID policy, the Chinese economy is not only growing at a slower pace, compared to other Asian countries, for example (World Bank, 2022), it is also at least partly decoupling from the world economy. The pandemic has also revealed the deep geopolitical ruptures between the large powers, in particular the United States and China (Kahl & Wright, 2021).

The latest shock to the current model of international integration has been caused by the Russian war of aggression against Ukraine. In response to the war, the G7 and a number of friendly states have launched multiple packages of comprehensive economic and financial sanctions against Russia. The differences of opinion on how to react to Russia's war has the potential to disrupt international cooperation forums. The G20, for example, has been split between Russia and China on the one hand and the G7 countries (plus Australia and Korea) on the other hand. Moreover, a number of nonaligned countries try to manoeuvre between these two poles, treating the Russian war as a regional conflict that should not affect broader international relations.

Due to their accumulation and serenity, these crises call into question the model of global economic integration that emerged after the end of the Cold War in the 1990s. This model of unprecedented integration of trading systems and financial markets, supported by even thicker intergovernmental and transnational institutions, has led to high growth rates in a few mainly export-oriented economies (Baldwin, 2016). Countries like China and also Germany have benefitted from this era of economic globalization, often at the expense of the poorer parts of their societies as well as their trading partners, however (Klein & Pettis, 2020).

This era of "hyper-globalization" (Rodrik, 2011) seems to have ended. Rather than referring to offshoring, supply-chain efficiency, or just-in-time delivery, current discourses about global economic relations are characterized by the terms near- and friend-shoring, resilience of supply chains, or strategic autonomy. These conceptual changes do not mark the end of globalization but certainly point to a new geoeconomic environment that is characterized by less transboundary commerce.

Germany is directly affected by these trends. As a "middle power," it lacks the sheer market or political power of larger economies such as the United States and China. Still, due to its geographic position and economic dynamism, Germany's preferences and decisions matter for its neighboring countries and the European Union as a whole. Rarely has this been clearer than during the Euro Crisis and the discussion about appropriate measures against soaring debt levels in South European countries. At the same time, only through the European Union can Germany assert economic and political influence on a global stage.

In the following, I would like to focus on the Russian war against Ukraine and the strategic competition with China as the two key drivers for current discussions on international economic policy-making in Germany.

Three days after the start of the Russian invasion of Ukraine, Chancellor Olaf Scholz announced a *Zeitenwende* ("a turning point") for German policy-making in an extraordinary session of the German parliament. Current discussions in Germany revolve around questions of international security or defense spending but also have strong implications for Germany's economic policy-making at home and abroad. Economic relations with Russia after the fall of the Iron Curtain and Germany's reunification were not only driven by purely economic considerations but also by the desire to change Russia politically and socially by increasing economic interdependences. The concept of *Wandel durch Annäherung* ("change through rapprochement") already guided German policy-making during the Cold War. Its influence remained effective after the collapse of

the Soviet Union. Nowhere is this more evident than in the area of energy relations, where Germany is heavily dependent on Russian exports of oil and natural gas. A symbolic project to further this energy cooperation was the construction of the Nord Stream 2 pipeline through the Baltic Sea. In hindsight, of course, the interdependence in the energy sector was not balanced and could easily be used by Russia to exert political pressure on Germany in times of war.

Since the start of the war in Ukraine, the economic cooperation between Germany and Russia is being unraveled. As the chair of the G7 in 2022, Germany helped to coordinate economic and financial sanctions against Russia. Moreover, Germany tries to diversify its supplies of oil and, in particular, natural gas by negotiating new gas supply contracts with countries such as Qatar, Canada, or Senegal. Perhaps the most important impact will be felt over the medium term in the area of renewable-energy production. Previously, the expansion of renewable-energy capacities, such as in wind power, solar photovoltaic cells, or green hydrogen, has been sought as a means to decarbonize energy production to meet climate-change-mitigation targets. Nowadays, renewable-energy production is also discussed as a contribution to enhance Germany's energy security. The effects the energy shock due to the war in Ukraine has on Europe's renewable-energy production can be seen, for example, in the substantial increase of imports of solar PV panels from China.

In addition to energy, Germany and Russia are decoupling also in other sectors such as metals, manufacturing, or agriculture. This decoupling is a result not only of the strict sanctioning regime against Russia in which Germany participates but also of the voluntary retreat of German companies from the Russian market. It seems unlikely that this process of decoupling of the German and the Russian economy will be reversed any time soon, and it invites a discussion about a potential scaling back of interdependencies at a much larger scale with China.

While German economic policy-making is currently mainly concerned with mitigating the repercussions of the war in Ukraine, the readjustment of economic relations with China should not fall by the wayside. Traditionally, economic relations with China were also influenced by the conception of Wandel durch Annäherung. Germany supported China's accession to the World Trade Organization (WTO) in 2001 and promoted closer trade and investment cooperation with China. However, hopes that China would change towards larger economic and even political liberalization haven proven to be exaggerated. On the contrary, since the seizure of power by Xi Jinping in 2012, the influence of the state in the economy has been growing, while China has increased trade and investment barriers in a number of strategic sectors. These developments have led to a rethinking of relations with China among policy and business elites in Germany. The Federation of Germany Industries, for example, described China as a systemic competitor in a seminal position paper published in 2019 (BDI, 2019). Furthermore, in response to a growing number of Chinese investments in German companies, the German government introduced an investment-screening mechanism to check and potentially block mergers and acquisitions that run counter to national-security interests.

However, the recent experiences of supply-chain disruptions during the COVID-19 pandemic and the increasing appreciation of vulnerabilities faced by Germany in key sectors such as battery production or natural resources (in particular, rare-earth metals) underline that more needs to be done to increase resilience. Given Germany's export dependency and China's sheer size, a decoupling will not be feasible. However, the German government, together with the business sector and other societal stakeholders, should enter into a strategic reconsideration of its relationship with China. Such a discussion was about to start under the new traffic-light-coalition government. In the coalition agreement, China was described as a systemic rival while German and European values were emphasized. However, the development of a new China strategy has been interrupted by the Russian war against Ukraine.

The developments during the past two years, including the COVID-19 pandemic and Russia's war against Ukraine, have contributed to the realization in Germany that the days of hyperglobalization are over and that we have entered a new geoeconomic era. Germany, alongside its partners in the European Union, will still be a key promoter of international economic cooperation and a rules-based order. However, the traditional liberal foreign economic policy-making of Germany will increasingly be pursued in a context of geopolitical rivalries, new security threats, and the need to decarbonize economies. The realignment of these priorities calls for the development of a new strategic compass for Germany in the world economy.

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