BDI

POLICY PAPER | CHINA

Partner and Systemic Competitor – How Do We Deal with China's State-Controlled Economy?

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- **The challenge of systemic competition:** A competition is emerging between our system of a liberal, open and social market economy and China's state-dominated economy. Politicians, society and the business community in Germany and Europe need a broad public discussion and orientation on this challenge.

- **Partnership and competition:** China is and will remain a dynamically growing market, a driver of the global economy and a key sales and procurement market for German industry. German industry wishes to take advantage of the opportunities offered by economic exchange with China. However, the challenges posed by China cannot be ignored.

- **Strengthening the competitiveness of the EU:** German industry wants to compete successfully with China on a level playing field in the future. To achieve this, Germany and the EU must invest significantly more resources in research, development, education, infrastructure and innovative technologies. The EU needs an ambitious industrial policy for Europe and its companies that focuses on innovation, intelligent regulation, social partnership, infrastructure and free trade.

- **A strong and united Europe:** No EU Member State can on its own cope with the economic and political challenges posed by China. Answers can only come from a strong, reformed Europe speaking with one voice.

- **Effective economic policy instruments:** German industry needs instruments that make our market economy more resilient. They must not restrict our market economy principles, must be WTO-compliant and must be applied equally to all foreign players within the EU's internal market.

- **International cooperation with like-minded partners:** Germany and the EU must coordinate even more actively with other liberal market economies so that common interests vis-à-vis China also lead to joint action.

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Background:

The aim of the paper is to outline the long-term systemic challenges posed by China and to present possible solutions. These are primarily aimed at policy-makers in Germany and the EU. The paper does not aim to cover all relevant economic issues in relation with China. Important and current concerns of German industry with regard to China will continue to be addressed in BDI position papers on individual topics (Cyber Security Law, Export Control Law, etc.) and in APA position papers. Nor does the paper present an in-depth analysis of the undisputed immensely great opportunities in economic cooperation with China and the status quo description of many German companies in China that have no problems in the Chinese market.

In recent months, German industry and the Federation of German Industries (BDI) have thoroughly dealt with the long-term systemic challenge posed by China. This paper outlines that challenge and presents approaches to solutions for players in Germany and Europe. The BDI assumes the following premises:

- The liberal and social market economy order in Germany and Europe will be strengthened.
- The multilateral order will be developed further.
- China is an essential part of international value chains. German industrial companies will continue to take advantage of the opportunities offered by the Chinese market, while Chinese companies will continue to take advantage of the opportunities offered by the European market.
- Different interests vis-à-vis China (e.g. short and long-term interests, individual and group interests, different interests of EU countries) are balanced wherever possible or, if not possible, subjected to priority setting.
- The progressive economic opening of China will be promoted: the dialogue with the Chinese government on further market opening and equal treatment will be maintained.
- Existing and potential new market distortions in China and global markets will be addressed.
- The EU will be used even more than before as an international force with the power to shape the global order.
- A general "containment" of China or "de-coupling" (in the USA this term is used to discuss the disengagement in economic ties with China) is not an option; German industry advocates exchange and cooperation.

I. Challenge

1.1 China as a systemic competitor

The Chinese "economic miracle" of the past decades began in December 1978 with Deng Xiaoping's ground-breaking idea of a strategic reorientation and opening of the Chinese economy. China's policy of reform and opening propelled the previously closed country into the top group of the world economy within just 40 years. While China's share of global gross domestic product was just two percent in 1980, today it is well over 18 percent. China's share of world trade at the end of the 1970s was just over one percent; today it is 19 percent. About 600 million Chinese have been lifted out of poverty.

For a long time it looked as if China would gradually move towards the liberal, open market economies of the West by integrating into the world economy and reshaping its economic system. This theory of convergence is no longer tenable. China is no longer developing structurally in the direction of a market economy and liberalism but is in the process of consolidating its own political, economic and social model. At the same time, China as an emerging economic power is shaping other markets and the international economic order. The Chinese model of an economy marked by substantial state control thus enters into systemic competition with liberal market economies.

After more than four decades of economic reform and opening, China's economic system is now a hybrid that combines state and market elements. Even though there is fierce competition between companies in China, especially in consumer goods and simple services, the economic process as a whole is characterized by a variety of possibilities for government agencies to intervene in the market. The state continues to play a strong direct and indirect role in the allocation of resources. The following aspects of the Chinese system are of central importance with regard to the new systemic competition:

- **The party's leading role within the state and the centralization of decision-making structures:** The 19th Congress of the Chinese Communist Party in October 2017 marked a turning point. It consolidated President Xi Jinping's position as the most powerful Chinese leader in decades. With the "Xi Jinping Thought" his visions for China found their way into the party's statutes. In March 2018, the National People's Congress decided to rescind the presidential limit of two five-year terms. Since taking office, Xi Jinping has questioned central political principles of the reform era established under Deng Xiaoping, such as "separation of state and party" and "collective leadership". The "new China" under President Xi is characterized by the party's leading and non-negotiable role within the state, economy and society.

- **The distortion of markets and prices through state intervention in the economy:** State influence on factor prices (land, energy, capital, labour) and indirect or direct subsidies for individual companies or entire industries have repeatedly led to overcapacities and market distortions in China. Due to the high presence of Chinese manufacturers on the world market, these distortions and overcapacities in China are increasingly being transferred to other markets, for example steel. In future, however, overcapacities from China can also be expected in other areas, such as robotics or battery cells.

- **An active industrial and innovation policy to achieve technological supremacy:** In China's economic system, the state acts not only as a regulator but also as a central market actor that directs corporate and industry decisions. In China's new era, state intervention in the marketplace and control of the economy are increasing rather than decreasing. The direct influence of the state or the party in corporate decisions is being expanded through a political upgrading of party cells. These intervene not only in the decision-making processes of state-owned enterprises but also in joint ventures and private enterprises. Politically mandated large-scale mergers create national champions. With the help of state investments in future technologies, direct and indirect and often non-transparent subsidies for companies, forced technology transfer and strategic takeovers of foreign high-tech companies, China is rapidly developing into a technologically leading nation.

- **The restriction of competition to the detriment of non-Chinese companies through market closure and unequal treatment:** While Chinese companies have enjoyed relatively free access to the EU's internal market to date, this does not apply equally to foreign companies in China. Despite some reforms, investment bans, investment caps or the obligation to set up joint ventures still exist in several sectors. In the services sector, which is also important for industrial companies in supporting their foreign business, market opening has fallen far short of expectations since China's accession to the WTO. In addition, China still maintains a significantly higher level of many industrial tariffs. There are numerous non-tariff barriers to trade. Foreign firms are discriminated against in public procurement. There is still a high degree of asymmetry in market access between China and the EU.

  There is also often no equal treatment for companies that have been present in the Chinese market for a long time. In order to protect its own market and acquire technology and know-how, since the middle of the last decade Beijing has cemented new restrictions on foreign firms beyond previously existing investment barriers. Investment restrictions exist, for example, in financial services. Problems include forced technology transfer, lack of implementation of intellectual property rights, arbitrary administrative treatment, including customs clearance, and unequal access to licenses, financing, subsidies and legal remedies. Frequent and non-transparent regulatory changes make it difficult for foreign firms to do business, especially in industries that have to rely on long-term investments. While Chinese statements in international for are committed to market-openness and promises to support free trade and the established global order, the practice falls short of Western firms' expectations of convincing and binding opening steps. The party's increasing claim to control society and the economy is restricting the room for manoeuvre and thus restricting the long-term prospects for foreign companies in China. An example of this is the Cyber Security Act, which entered into force in 2017, with its provisions on the disclosure of sensitive data, local data storage and the restriction of cross-border data traffic. Protection of the strong market share of state-owned companies also restricts competition in China.

- **Comprehensive control and active management of society and the economy using modern technologies:** The Chinese leadership is working intensively to further increase the efficiency of economic planning and social control through artificial intelligence and big data processes. One example of this is the Social Credit System, which is designed to enable the Chinese government to monitor compliance with laws and regulations by means of undisclosed criteria. The points awarded under this system can have a direct impact on the business prospects of companies in China. Poor scores can, for example, lead to reduced opportunities for public tenders, higher tax levels and limited investment opportunities. The behaviour of companies and individuals in markets outside China can also be included in the evaluation. By integrating Chinese IT companies into the system, the government gains access to extensive amounts of data.

China's state-dominated economic system conflicts in many respects with the liberal and social market economy principles of the EU and many other countries. While in Europe the market is the central organizing principle of the economy, China seems to regard market mechanisms as means that can be applied selectively and gradually. Politicians and companies in the EU must adapt to this difference. Though liberal economists are convinced that China's model is at a long-term welfare disadvantage compared to a liberal and social market economy, for example because of its tendency to create overcapacities or the inefficient selection process among state-owned enterprises. However, such disadvantages do not prevent the economic heavyweight China from pooling capacities for economic and political goals with high efficiency. The government's declared goal is to achieve a dominant position in the world economy in important technological areas by 2049.

1.2 China as a global power

Competition between China's economic model and liberal market economies will have a decisive impact on the further progress of globalization. It remains to be seen whether this will lead to cooperation, coexistence or antagonism between the different systems. Under Xi Jinping, China is pursuing a more self-confident and active foreign and foreign trade policy. The Chinese model is now being promoted as an alternative model for developing countries.

China plays an important role in shaping the international order. Globalisation can only be shaped with China, global problems such as global warming can only be solved with China. New international institutions such as the Asian Infrastructure Investment Bank (AIIB) initiated by China can provide impetus for the urgently needed further development of the international order. China's efforts to help shape the global regulatory framework, however, are not always in line with the German and European interest in a rule-based global order based on principles of openness and non-discrimination:

- **Redesign of international institutions and rules:** The regulatory power of existing international institutions, in particular the UN and the WTO, is recognised by China. Like Germany, China benefits from the existing international system as a winner of globalisation. China is increasingly bringing its own norms and interests to bear in international institutions and agreements. This is reflected in China's ideas on human rights (UN), in the role of state-owned enterprises (WTO/G20) or in the global design of the cyberspace. A central element in these efforts is the Belt and Road Initiative (BRI), with which China is expanding its geopolitical and geo-economic influence, shaping third markets according to its own interests. China is pressing ahead with the establishment of its own technical and regulatory standards (including industry standards, customs clearance, dispute resolution, transport and digital standards) in other markets.

- **Free trade agreements with Chinese characteristics:** China's strategy for concluding FTAs is not in line with the EU's interest in comprehensive agreements with high standards. Bi- and plurilateral Chinese free trade initiatives, such as the Regional Comprehensive Economic Partnership (RCEP), rely on relatively low standards in areas such as the environment, social safeguards or the protection of intellectual property. They focus instead on reducing tariffs without providing additional support for sustainable development.

- **China uses its political and economic weight:** China, like many other countries, uses its weight to assert its own interests abroad. It is increasingly using its economic strength to achieve political goals – both by creating incentives (e.g. large Chinese investments and orders, low-cost loans) and by exerting economic pressure (e.g. import restrictions, restrictions on tourist flows). This is also noticeable within the EU. Within the framework of the so-called "16+1 format", China is expanding its political influence in Eastern and Central Europe, including EU member states, in particular through infrastructure projects accompanied by low-interest loans from Chinese banks.

1.3 China as partner and competitor

The German economy as a whole is strongly intertwined with other countries through trade and capital exchange. Positioning the German economy in the EU's internal market and in the world market is essential for the success of German industry. This also applies under the premise of a new systemic competition. As a dynamically growing market, China remains one of the most important economic partners. German industry has no interest in a conflict-oriented economic, political and technological containment or decoupling from China. Systemic differences and divergences do not necessarily mean conflict but require the reliable and resilient management of common interests. Cooperation is necessary – despite competition. China is a pillar of the global economy. China, Germany and the EU have a common interest in shaping the future.

Close partnership

Over the past four decades, the German-Chinese economic partnership has brought great gains in prosperity for all concerned parties. China's rapid development has benefited greatly from the capital, technology and know-how of German companies. German industry uses the latest environmentally friendly technologies, efficient in use of both energy and raw materials, in the Chinese market and contributes significantly to the creation of high-quality jobs and the training of qualified specialists in China. German companies have contributed to the unprecedented rapid expansion of an efficient infrastructure (express train network, airports, power generation and transmission, mobile phone network, health industry). In many cases, German companies are “desirable partners” for the technological upgrading of Chinese industry. They support China in modernizing its industry in the direction of digitization/Industrie 4.0.

China is of great importance for German industry. Family businesses, SMEs and listed companies have benefited greatly from China's enormous economic rise and continue to do so today. In 2016, German direct investment in China amounted to around 76 billion euros, or 6.8 percent of total German foreign investment. Approximately 5,200 German companies comprising over one million employees were active in China. Many companies have large sums of investment tied up in China and both SMEs and large German companies are continuing to expand their investments in the country. Due to the strongly integrated value creation networks and the current position of German industry in the Chinese market as well as the potential of business in China, an economic disengagement from China would entail enormous costs. German industry rejects this and is concerned that such a measure is increasingly being discussed in the USA.

For German companies, China is no longer just an important location for production, a supplier or sales market, but is also gaining in importance as a research and development location. Access to the highly dynamic Chinese market has become an important factor for the innovation strategies of globally active companies. One reason is that the demands and preferences of China's growing middle class are having an ever greater influence on global consumer goods markets. China is also playing an increasingly important role in the development of new goods and services. The large production networks and clusters in China offer good opportunities to work closely with customers and suppliers in product development. In the field of artificial intelligence, Germany's strength lies in industrial applications. Globally, the core competencies in the EU and Germany in the context of "Industrial AI" can be combined with the data analysis capabilities and technologies in China for mutual benefit. China's technology-oriented population, efficient digital companies, regulatory freedom to develop new business models and the ability to quickly exploit economies of scale and collect and process a large amount of user data, customer data and other data make the country an attractive test site and pilot market, especially in the field of digital technologies and services.

Despite the attractiveness of the Chinese market, it is becoming increasingly important for companies to keep an eye on the possible risks of a commitment in China and, if necessary, to balance them out by further diversifying value-added networks, production locations and sales markets.

Growing Competition

With China's structural transformation away from the "workbench of the world" to a service and high-tech country, our economic relations are changing as well. The primarily complementary structure of German-Chinese trade – China supplies consumer goods and intermediate products in the low-technology sector and Germany supplies high-value investment goods and consumer products – is increasingly interspersed with fields in which German and Chinese manufacturers are in direct competition.

The growing competition is not only an expression of dynamic entrepreneurship in China but is also largely due to targeted government support and guidance. The key element here is the industrial policy strategy "Made in China 2025", with which the government aims to significantly increase China's global market share in ten key industries and reduce its dependence on foreign technology imports. The increase in technological know-how of Chinese companies is financially promoted and encouraged through various channels. For instance, the Chinese government offers tax incentives, e.g. tax rate reductions for high-tech and new technology companies (HNTE). In addition, the government grants special deductions for R&D operating expenses and tax exemptions for technology transfer. Low-cost loans from state-owned banks, direct project-based financing through the state budget and state venture capital also support the innovation efforts of Chinese companies. The financial contributions benefit Chinese companies not only in their own research and development projects, but also in the targeted acquisition of foreign technology by means of company takeovers abroad.

Industrial policy is also pursued in market economies in the West and companies benefit from state research funding. However, the dimension of state innovation control in China is many times greater and leads to increased competitive pressure for many EU companies. In some fields, such as artificial intelligence, internet and cloud technology, mobile payment transactions and big data analysis, China has already technologically surpassed Europe and, together with US companies, dominates the internet economy.

Chinese companies are also increasingly becoming competitors in third markets. Through BRI, the Chinese government supports the activities of Chinese companies abroad. German companies are increasingly complaining about disturbances in competition in third markets, which are a pointer to subsidies for foreign activities of Chinese companies. Particularly low-cost offers by Chinese providers for projects abroad indicate that favourable loans from state banks and subsidised factor costs play a role

II. Solutions

Discussions about the right approaches and instruments for dealing with China reveal that there is a fine line between adaptation including maintaining the liberal, social and open market economy order on the one hand and a protectionist isolation of one's own markets and intervention in the liberal economic order on the other hand. Measures taken by the current US administration indicate that protection against Chinese distortions can quickly slide into protectionism. The credibility of German and EU policy is at stake here. Germany and the EU must strike the right balance in their reactions to China. This applies to the openness of our economy but it also applies to the question of how much industrial policy Germany and the EU need. Restrictions on contractual freedom, competition in free markets and intervention in private property (in the context of investment controls) can only be a last resort in which the risks of excessive state control must be minimised. Germany traditionally benefits from the transfer of innovation and thus of knowledge. With the exception of security-relevant areas, state restrictions must not be allowed to deprive the transfer of knowledge of its full potential. Wherever possible, multilateral solutions should be sought in dialogue with China. The EU must not jeopardise its credibility in international governance by deviating from the principles of openness.

2.1 Strengthening our own competitiveness

If Germany and the EU want to continue to compete with the emerging world power China in the future, innovation within the EU must be strengthened. Bolstering Germany and the EU as business locations is a basic prerequisite for companies to be able to compete with China's state-controlled economy.

Chinese companies have already become world leaders in important technologies of the future. The technological rise and increasing international competitiveness of leading Chinese companies cannot be attributed solely to "unfair" state support through subsidies, protectionism, forced technology transfer or industrial policy interventions. China's market size, its technology-driven society, large amounts of private and public venture capital, strong innovative entrepreneurship and a high degree of competition within the Asian market as a whole also play an important role.

Germany and the EU cannot rest on the supposed certainty that our model of an open society and a liberal and social market economy will bring long-term macroeconomic advantages over the Chinese system. Without investing in our infrastructure, improving our education systems and promoting research and development in future industries, we have little chance of competing with a China that does just that. Against this background, many long-standing demands by German industry to increase the international competitiveness of our companies are gaining in urgency.

Framework for competitiveness in the EU

In the debate on how to deal properly with China's state-controlled economy, one hears repeated calls for a stronger industrial policy agenda, particularly at the EU level. From the point of view of German business, however, it would be pointless to follow the dirigiste approach of Chinese industrial policy. Tight government regulations on research funding may work in China; in an environment in which entrepreneurs are accustomed to deciding independently on investments in future technologies, they would be counterproductive. In addition, an actively interventionist industrial policy has an impact on the corporate landscape. It can impair differentiated market-driven industry and company structures as well as value creation groupings that have to withstand constant scrutiny and dynamic change.

Demands:

- **The EU should breathe life into its industrial policy guidelines.** The EU should set itself an ambitious industrial target for 2030, thereby making the strengthening of industry and competitiveness a policy objective on par with other objectives such as environmental, climate and consumer protection. Particular attention should be paid to the framework conditions for small and medium-sized enterprises. The EU's Better Regulation agenda should be further developed, deepened and made into a permanent programme.

- **Direct market intervention should remain the exception in Europe.** On the contrary, the Federation of German Industries (BDI) calls for the efficiency advantages of our market economy to be exploited to a greater extent through a modern, technology-open European and cross-border industrial policy. Above all, we must create the right environment to stimulate research and development, intensify competition, promote new technologies and keep markets open or open them further.

- **Reappraising merger control:** While in China large corporations are forged by government interventions on a global scale (e.g. in the railway sector with the formation of the large corporation CRRC in 2015), the competition authorities in the EU only consider the European internal market as the relevant market for European mergers. Here, countermeasures should be taken and the market-driven formation of European champions should be permitted.

- **Implementation of EU requirements by Member States:** Member States are called upon to implement recommendations on economic policy more decisively, e.g. from the European Semester. Particular deficits are repeatedly identified with regard to reforms and investments in the fields of education and training, innovation, the tax system, infrastructure and the business environment.

- **The EU itself needs a higher budget** to cope with the tasks and challenges assigned to it. The structural shift towards a growth-oriented budget must take place more rapidly than before. Support for research and development, new technologies and pan-European infrastructure for transport, energy or digital networks must be substantially increased. Research expenditure should be increased to €160 billion over the next seven-year period, double the current level.

- **Setting long-term goals:** The Chinese government is planning over long time frames and is developing ambitious long-term goals. System competition with China is forcing us to think more strategically and long-term. This calls for concerted efforts on the part of industry and politics. The German government and EU institutions must not restrict their policy-making too much to the small-scale issues of everyday political life but need the courage to develop and implement visions and "moon missions". This involves not only concrete medium-term projects such as a comprehensive Europe-wide 5G network by 2025 or the expansion of e-mobility in Europe but also early consideration of issues that lie further in the future, such as a European hydrogen economy. Germany and the EU should adhere to the liberal economic model and limit state intervention to a necessary minimum. The BDI continues to advocate an approach that does not give preference to certain technologies in German and European research.

Innovation policy

China is relying heavily on state support for innovation and is continuously increasing its R&D volume. In order to make Germany and Europe fit for innovation, especially in competition with China, both basic research and applied research, development and education must be strengthened.

Demands:

- **Tax incentives for research:** In addition to higher funding for basic research, the framework conditions for corporate R&D activities must improve. As a first step, Germany needs a swift introduction of tax incentives for research. In a second step, existing tax obstacles to private R&D activities must be gradually reduced.

- A **stronger, but also selective interaction of military and civil research and development** could release additional investment potential through the creation of synergies. The establishment of the Agency for Innovation in Cyber Security (ADIC) in August 2018 is a first positive step in this direction. One of its goals is to promote disruptive leapfrog innovations in the field of cyber security. From the point of view of the BDI, an EU-wide pooling of resources for research projects in the field of cyber security would be helpful.

- German industry needs **(highly) qualified specialists** to maintain its competitiveness and ability to innovate. Shortages of skilled workers are currently acting as a brake on growth in many areas. Not only university graduates are missing but also qualified employees without academic qualifications, such as skilled workers or master craftsmen. According to the German Economic Institute

(IW), the so-called MINT gap amounted to over 300,000 people in the spring of 2018. In view of demographic change and an ageing population, an overall concept is needed to secure the skilled workforce base in the long term. This includes the further development of education and training in Germany but also labour market-oriented immigration.

- **Protection of intellectual property:** The German government and the EU Commission should continue to work to ensure that the Chinese government further improves the protection of intellectual property, technology, patents and trademarks in China.

Digitisation

Europe risks falling behind China and the USA in the international competition for a leading role in the digital transformation of state, economy and society. We must not resign ourselves to this.

Demands:

- **Digital Single Market:** To keep up with the large and dynamic digital markets in China and the US, EU institutions and Member States need to further develop the European digital market and adapt and harmonise the legal and regulatory framework in the single market. The size of the domestic market is a decisive factor for the international competitiveness of digital business models.

- **Increased investment in digital infrastructure:** High-performance networks are key to the success of digitisation. China has already made great progress in this area and is well on the way to becoming a pioneer in the expansion of 5G networks. The availability of gigabit networks by 2025 for all companies, private households and along transport routes is a basic prerequisite for the competitiveness of German industry. Expansion in rural areas is particularly important for German industry. This is where the majority of medium-sized companies and around 70 percent of industrial jobs are located. Gigabit networks must therefore be promoted in a technology- and provider-neutral manner in commercial and industrial areas where no self-supporting expansion is possible.

- **Pooling forces to develop artificial intelligence in the EU:** Measures to strengthen artificial intelligence are equally important. It is a key technology for the next stage of digitisation. Only if the EU member states join forces to develop and distribute AI systems will they remain internationally competitive.

- **Using strengths in digitisation:** In addition to addressing weaknesses in digitisation, the EU needs to become better at exploiting specific strengths, such as a strong demand for security and data protection. While China and the USA already have a clear lead in consumer-oriented digital services, Germany leads in Industrie 4.0 applications and in digital B2B industry platforms. We must succeed in using the German brand value and the associated trust in security to develop corresponding global standards. It is precisely the security of networked products (security by design and security by default) that must be established as the core of European brands.

2.2 A strong and united Europe

The EU is the world's largest single market in terms of GDP. The EU should translate this economic strength more into political self-confidence, especially vis-à-vis China and the US. Only a strong and united Europe can defend its interests and values against the emerging world power of China. The challenges both internally (e.g. Brexit) and externally (e.g. transatlantic relations, Russia's violations of international law in Europe) highlight the importance of a stable and comprehensive unity within the EU for the future development of the continent. Two priorities are of particular importance here: first, to make full use of Europe's economic strength, and second to strengthen the EU as an international partner and anchor of stability. Key words here are the deepening of the economic and monetary union, the strengthening of research, innovation and industry, the further development of the internal market, the orientation of the EU budget towards growth, cohesion and external strength, and the expansion of the digital economy. The EU should pursue an active foreign trade policy and strengthen cooperation in foreign, development and security policy. It should consolidate its role as an anchor of stability and partner of European third countries (e.g. Balkan countries).

The last point in particular is becoming increasingly important in the context of BRI. The EU faces the challenge of developing and shaping European responses. In addition to political responses (e.g. stronger ties between the Balkan states and the EU; highlighting successful EU projects), it should be examined to what extent financing instruments that are already available need to be adapted or if new ones need to be created. Consideration should also be given as to whether the European Investment Bank (EIB), the world's largest multilateral lender, should finance projects outside the EU, particularly in Central Asia, to a greater extent than is currently the case.

The economic and political challenges posed by China cannot be met by any EU Member State alone. Only a strong and united Europe can provide answers to China's one-party system and state-controlled economic system. In doing so, two basic paths must be pursued: on the one hand, the strategic orientation and interdepartmental coordination of all China-related activities of the EU and its member states; on the other hand, a strengthening and reforming of the EU from within in those areas that have turned out to be weak points of the Union, especially against the background of an increasingly multipolar world order and China's growing importance - economically, politically and socially.

Demands:

- **A united EU and the abandonment of isolated national courses of action:** In order to achieve greater unity in the EU with regard to China, different interests within the Union must be taken seriously and balanced. This also implies a willingness to put existing German positions to a reasonable extent up for discussion within the European framework and to orient them towards maximum overall benefit for the EU internal market. Germany's traditionally close relations with China (e.g. via the German-Chinese government consultations) should also be embedded more strongly in the pan-European context by the German government and used to sound out pan-European solutions.

- **Strengthen the EU's foreign policy capacity:** At present, the EU is not perceived as a strong power in Asia. The EU's ability to act in the fields of foreign and security policy and its presence in Asia should be increased.

- **Ensure coherence within the EU institutions and their various instruments:** The multitude and diversity of support instruments of the European institutions are currently not always aimed in the same direction. There needs to be better coordination so that existing means can be used more effectively for foreign trade purposes.

- **Improve branding of the EU:** The EU's cooperation with China is built on solid foundations. The EU should not be afraid to choose a more self-confident rhetoric both internally and externally and to pursue a coherent presentation of what the EU does (especially in Southern and Eastern Europe). European strengths must be emphasised more strongly, European interests must be given a clearer voice.

- **Strengthen not only the EU institutions but also the Europe of member states:** In addition to a common attitude and strategy of the EU and its institutions, the cohesion of all Member States with regard to China must also be strengthened. EU positions must not be watered down by contradictory actions by the Member States. It is only in this way that divisions within the EU by formats such as 16+1 can be stopped. Germany, France and Italy as strong economic partners of China play a special role here and should make more active use of it for the sake of common European goals.

- **The countries of the Western Balkans should be brought closer to the EU:** This is in the strategic interest of the European member states and their economies. A clear perspective for accession and a deepening of relations are more necessary than ever.

- **European concepts for raw material and supply chain security:** Dependencies in the raw materials sector on non-market economies, authoritarian and unstable systems should be reduced.

Coordination in business and politics

In China's state-led economic system, there is a high degree of coordination between political, economic and social actors in many areas. China's coordinated approach must be countered with a coordinated approach of the political, economic and social institutions in the EU and Germany. The BDI sees a need for closer coordination between the EU Commission and the governments of the EU member states. A closer exchange is needed with regard to the respective China strategies. The China strategies of the Commission and the Member States should be interlinked. In this way, the EU can act coherently and strongly vis-à-vis China. European industry federations should further coordinate on China issues and define common European objectives. BusinessEurope should play a coordinating role.

Demands:

- The BDI demands coherent and **long-term China strategies from the EU Commission and the German Federal Government**.

- **The interconnectedness and coordination of the European institutions among themselves on China-relevant issues** must be further strengthened in order to ensure a more strategic overall approach by the EU and to deal with a unified China accordingly.

- Issue-related **funding programmes of the EU** or the Federal Government are to be reviewed for their relevance with regard to China. These include EU research funding, digitisation initiatives and strategies for global health policy.

2.3 Securing the market-based economic order in Germany and Europe

In the past, problems of industrialised countries with China were predominantly found in the areas of market access and the restrictions on equal treatment in the Chinese market. Now that China has become a heavyweight in the global economy, state-induced market distortions in China are also having a massive impact on the EU and third markets. Against the background of systemic competition and frequent activities of Chinese companies that do not always operate in conformity with market economy principles in the EU single market, the question arises as to how this situation can be dealt with within the framework of our market economy system and whether there are any "gaps" in our rules and regulations that should be closed.

Trade

In several sectors (especially steel, cement, ceramics as well as aluminium and other non-ferrous metals), China has amassed overcapacities. In these sectors, products are increasingly pushing their way onto world markets at dumping prices. This has become a serious problem for German and European producers in these sectors. To ensure a level playing field in competition, German and European industry needs effective and balanced trade defence instruments (TDIs). In this context, the BDI takes a positive view of the reform of the basic EU anti-dumping regulation. In the BDI's view, the EU has also taken an important step towards modernising trade defence instruments, streamlining procedures, making them more transparent and strengthening cooperation with European industry. The effectiveness of trade defence instruments in the EU (anti-dumping and anti-subsidy measures) must be ensured in all areas to safeguard the competitiveness of the EU industry as a whole.

Demands:

- **Strengthen anti-subsidy instrument:** In contrast to the anti-dumping instrument, the anti-subsidy instrument is less effective in view of overcapacities on global markets and trade. Too often, companies cannot provide the necessary evidence of "material injury". The central problem here, especially in connection with China, is the lack of official transparency. As a result, it is often very difficult to give a precise figure for the possible subsidy margin. The BDI is in favour of tightening up the anti-subsidy instrument. In concrete terms, this means improving subsidy notifications, defining state enterprises more precisely and recording trade-distorting subsidies more accurately.

- **Prevent dumping of services:** So far, there are no effective instruments against dumping in trade in services. There are gaps in both WTO and EU law. Although the EU Commission has made it possible to take labour and environmental standards into account in the methodological renewal of the basic anti-dumping regulation, it is questionable to what extent this can be used to tackle distortions of competition in the increasingly important service sector. The creation of new instruments should be considered here.

- **Prevent circumvention of trade defence measures:** China is rapidly building up production capacities in other countries, particularly in BRI partner countries. This threatens to circumvent the EU's existing protection against imports by Chinese companies from non-Chinese production. The EU's trade defence instruments should also be used consistently against unfair competition or impermissible subsidies from such countries.

Investments

Foreign investments - including those from China - are generally welcome in Germany and the EU because they create wealth and jobs. The fundamental freedom of investment should be maintained in the EU. Property rights and freedom of contract must also be guaranteed and strengthened as fundamental pillars of the liberal and social market economy in Germany. Deviations from these principles may only occur in a few clearly defined areas. The protection of public order and security is a generally accepted criterion for state intervention in investment decisions. A problem, however, is the worldwide trend that governments are increasingly expanding the concept of national security in order to limit "access" of foreign investors to technologies deemed worthy of protection. At the same time, however, there is a need to record direct investment and, if necessary, to adapt existing regulations on government investment audits to new risks. Apart from issues of national security, concerns include possible distortions of competition through state-subsidised takeovers. However, the investment audit mechanism anchored in German foreign trade law should continue to be strictly limited to the clearly defined protection of public order and security. In order to prevent distortions of competition on the takeover market, adjustments should instead be made to competition law (see subchapter "Competition and State Aid Law").

Demands:

- **Ensure legal certainty for investment screening:** Criteria for investment screening to protect security and public order must be clearly defined, applied equally to all non-European investors and offer legal certainty to both the German owner and shareholder willing to sell and the foreign buyer. Efficient audit procedures must be ensured.

- **“No technology protectionism:"** The BDI rejects extending national security in general to the protection of key technologies. Government investment controls must not be a means of industrial policy. In order to ensure an open investment climate, we need clear and transparent criteria for the economic sectors in which security and public order are affected. Technological developments make it difficult to distinguish between technologies relevant to national security and other technologies. Business and politicians must face up to this task together.

Competition and State aid law

Although our competition instruments are good on paper, they do not, or only to a very limited extent, address market-distorting practices or targeted state support brought into the EU internal market from outside. This is currently putting our businesses at a competitive disadvantage. The BDI therefore calls for the effectiveness of existing competition law instruments at national and EU level to be reviewed and, if necessary, adapted or new instruments created.

Demands:

- **New criteria for assessing market power with coordinated action**: A risk posed by Chinese takeovers is seen in the possibility of building up a dominant market position. Such market power could be built up by formally legally independent investors who, however, act in a coordinated manner within the framework of the Chinese government's central economic planning (especially state-owned enterprises). In such a case, German and European competition authorities find it difficult to diagnose and combat market power. The competition law instruments should be adapted to the new global challenges.

- **New instrument against distortions of competition in takeovers:** The BDI is in favour of introducing a new instrument to control subsidies for foreign investments. This should aim to ensure that Germany and the EU remain an open investment location. If a state-subsidised takeover is suspected, subsidy control should be applied regardless of the investor's country of origin. In such cases, adequately staffed inspection bodies should be able to rely on transparent information on the investor's company accounts (based on international accounting standards), on evidence in the ownership structure and on evidence on the sources of financing for the takeover. The BDI calls for the design of instruments to safeguard a competitive level playing field at EU level and for the consistent application of existing instruments.

- **Apply EU state aid rules to subsidies outside the EU:** EU state aid law also needs to be adapted in view of systemic competition and the resilience of our market economy. While state aid is relatively strongly regulated within the EU and subject to high transparency requirements, there are no instruments to restrict state aid outside the EU that have an impact on the EU market. A first step towards greater equality of competition would be to anchor and effectively develop so-called "matching clauses" (clauses that allow state aid to be used where state aid abroad distorts competition) in EU state aid law. In addition, consideration should be given to the possibility of extending EU state aid rules to aid granted outside the Union.

Public tenders and award procedures

China has still not acceded to the WTO Agreement on Government Procurement (GPA), although it has made promises for many years and has pledged to do so in the WTO accession protocols. While European tenders are accessible to Chinese bidders, European companies are often disadvantaged in Chinese procurement procedures. Foreign bidders are often systematically discriminated against by incomprehensible standards, "buy Chinese" obligations or point systems that place foreign companies at a disadvantage vis-à-vis Chinese companies.

In addition to the lack of market access in China, there is an increasing problem of distorted competition in EU public procurement procedures. Distorted competition may arise where EU companies compete in public procurement procedures with Chinese companies that can offer lower prices than non-subsidised EU companies due to state support. The EU Commission's control possibilities with regard to the competitive or legal conformity of bids in public tenders in the EU are sufficient with regard to bids from EU companies but are limited for bids from non-EU companies. In view of possible distortions of competition by Chinese bidders, improvements are urgently needed here. The possibilities for checking the competitive or legal conformity of offers from non-EU suppliers should be extended.

Demands:

- **Demand GPA accession of China categorically:** The German government and the EU must continue to significantly increase the political pressure on China to finally implement the accession to the WTO Agreement on Public Procurement promised by China many years ago within the framework of its WTO accession. The GPA has a key role to play in opening up markets that are still closed and in combating illegal practices in economically important public procurement. China should very swiftly make an acceptable offer of accession, with a market opening offer equivalent to the level of market opening of the other GPA countries. Previous offers have been insufficient from the point of view of German industry, for example in the areas of construction and public procurement. The demand for a satisfactory Chinese bid to join the GPA to be submitted as soon as possible should become a central demand in all further negotiations with China.

- **Strictly observe transparency requirements when awarding contracts in the EU and effectively enforce EU law:** The transparency requirements applicable to public contracts under the EU Treaty and the EU Directives must be strictly observed. This means, in particular, that public contracts subject to tendering requirements may not be concluded through inadmissible "direct awards". Effective enforcement of EU public procurement law also requires that infringements of EU public procurement rules should be consistently pursued by the Commission. The prioritisation of infringement procedures announced by the Commission must not lead to a reduction in the use of this key instrument of EU law enforcement.

- **Prevent dumping prices when awarding contracts in the EU:** Following the model of EU anti-dumping investigations into trade in goods, companies should also be given an effective tool to insist on an effective review of abnormally low bid prices in the case of public procurement dumping bids. EU companies must be prevented from being discriminated against by dumping offers from subsidised companies from third countries. This applies to all procurement procedures in the EU, but particularly to those awarded in the context of projects funded by EU funds.

- **Combating undercutting of appropriate standards in EU public procurement:** EU public procurement law provides for extensive possibilities for taking environmental, social and sustainability criteria into account when awarding public contracts. In order to avoid distortions of competition within the EU, these criteria must always be formulated carefully and strictly in relation to contracts. At the same time, there must be a hardening of the consensus among the EU Member States that individual Member States or public contracting authorities should not allow cheap offers from suppliers from third countries by making concessions to the quality of the tender specifications.

- **Improve mutual access to public procurement:** In principle, the International Procurement Instrument (IPI) proposed by the EU Commission pursues the right objective of enforcing the principle of balanced reciprocal market access enshrined in the GPA. The aim of the IPI, for example, is to enable the Commission to investigate discrimination against EU companies in connection with public contracts in third countries. Even in the present amended version, the Commission's proposal for the IPI requires further revision in order to avoid negative effects. It must be ensured that counterproductive effects, additional costs for companies and legal uncertainties for EU companies and awarding authorities in the EU are avoided. The principle of reciprocity enshrined in the GPA should be maintained.

Competitiveness in third markets

With the increased global ambitions of Chinese companies and especially in the wake of BRI, competition with Chinese companies is increasingly taking place on third markets as well. Chinese competitors are often able to offer lower prices than their competitors from traditional industrialised countries, as Chinese banks are not bound by international standards (OECD consensus) when it comes to export financing.

Demands:

- **Adjust Hermes cover:** In order to reduce the disadvantage vis-à-vis China, Germany and the other EU states should make full use of the existing scope of the OECD consensus with regard to export financing (orientation towards Belgium). In Germany, the Hermes cover should be adjusted accordingly. This also applies to smaller order volumes ("small tickets").

- At the same time, efforts should be made at **multilateral level** to work with China to develop global standards for export and project financing in line with the OECD consensus.

- **Further develop the EU Connectivity Strategy:** The EU Connectivity Strategy presented by the EU Commission in September 2018 should be implemented and further developed. Partner countries outside the EU in Eastern Europe and Central Asia should have access to broader financial offers from the EU and the European Investment Bank (EIB) to co-finance infrastructure projects in their countries so that they have more alternatives to BRI projects financed by China. German industry's expertise in project sustainability can thus be put to better use.

2.4 International Cooperation

Multilateral economic order

The innovative strength and efficiency of German industry can only survive in international competition if the regulatory framework of the global economy guarantees a level playing field in competition. The WTO, IMF and World Bank, the OECD, G20, G7 as well as international agreements in the field of climate policy or the UN Sustainable Development Goals shape this framework and must ensure the level playing field in competition.

The WTO's multilateral trading system has provided the most effective and comprehensive framework to date to maintain and shape open markets, rule-based trade and competition. The WTO agreements go far beyond customs issues and touch on areas such as subsidies, intellectual property protection, trade in services and investment aspects. Basic principles include non-discrimination and national treatment. This means that foreign companies must not in principle be put at a disadvantage on their home market. In addition, the WTO offers established procedures for negotiation, rule monitoring and dispute settlement.

Even if the WTO offers an obvious and clear-cut way to establish new and viable rules for competition with China, the current crisis of multilateral institutions is likely to make it more difficult. The current US administration is increasingly withdrawing support from the WTO and endangering its functioning with the de facto obstruction of the appeal body of the dispute settlement mechanism. Behind the WTO crisis and the US behaviour, however, lies the problem that since the WTO was founded – and with the economic strengthening of the major emerging economies, mainly China – it has not been possible to find an appropriate balance on key issues between the interests of these countries and those of the traditional industrialised countries. These issues include further market opening, competition in industry and services, and rules for modern world trade (e.g. e-commerce). One problem of the WTO is the undifferentiated developing country status of large emerging economies. China continues to claim the right to maintain its status as a developing country. This implies substantial (lower tariffs), administrative and procedural advantages for China. From the point of view of many traditional industrialized countries, this status is no longer up to date and has become obsolete as a result of China's economic development.

For German industry, one of its main concerns is to strengthen and modernize the multilateral trading system. This process can be a cornerstone for regulating competition with China on a permanent basis in the sense of a level playing field. To this end, the traditional industrialised countries must find a clear common approach and enter into a constructive dialogue with China and the other WTO members. But also outside the WTO, in the G20, G7 and OECD, increased efforts are needed. Everyone, including the EU, the US and China, should have an interest in creating a functioning regulatory framework for global competition in the 21st century and providing sufficient incentives for innovation.

Demands:

- Reinforce the **WTO's shaping power** as the cornerstone of rules-based international trade: The BDI advocates the use of flexible negotiation formats to create modern plurilateral regulations that can serve as models for multilateral agreements in future.
  - Areas where new rules are overdue include electronic commerce, investment facilitation (including transparency, non-discrimination) and domestic regulation of services. WTO members must be ready to assume commitments flexibly according to their economic power and capacity.
  - China, with its claim to global technology leadership, should no longer retreat to its undifferentiated status as a developing country. The pressure on China to give up this status should be increased.
  - China must play an active and responsible role in restoring the multilateral trading system to efficiency. This means, on the one hand, that the country should participate in sectoral initiatives (e.g. to reduce further chemical tariffs, for mechanical engineering or to open up trade in services) and, on the other hand, ratify and apply existing plurilateral agreements.
  - The WTO Secretariat must be given more powers in negotiations and in monitoring rules in order to propose solutions and to be able to denounce and sanction misconduct by members. We support the EU proposal to regard non-notified subsidies as those that seriously affect other WTO members. The resulting reversal of the burden of proof can benefit WTO members who may take legal action. In particular, more effective ways need to be found to enable WTO members to comply with their reporting obligations and to detect

and limit non-transparent subsidies. Priority must be given to rebalancing competition between market-economy and state-economy members. This also includes new plurilateral or multilateral rules for dealing with state-owned enterprises and against forced technology transfer (e.g. via joint venture requirements or inadequate enforcement of rules on IPRs, NTBs).
  - In order to fulfil the growing tasks comprehensively and on time, the WTO must be strengthened financially and organisationally and its dispute resolution capacities must be expanded.

- **Intensify G20 cooperation:** The G20 offers a forum for finding solutions to global challenges not only with like-minded but also with "differently-minded" "big players" in the global economy. In addition to the EU and leading industrialised countries, it also includes China, making it a suitable forum for dealing with global problems. G20 decisions are not binding and depend on the willingness of its members to cooperate, but they offer the opportunity to reach compromises between states with different interests.
  - G20 members should urgently reaffirm their commitment to free, rule-based and multilateral trade. The G20 should revive its commitment to Standstill and Rollback on Protectionist Measures.
  - WTO, OECD and UNCTAD must continue to be mandated by the G20 to monitor G20 trade measures. The G20 must promote a level playing field in all economic sectors, including digital commerce.
  - The G20 must reduce distortions of competition for state-owned enterprises. State subsidies distort competitive conditions in favour of the Chinese market.
  - The G20 must continue to find solutions to reduce overcapacities. China's unwillingness to take measures to reduce overcapacities in the steel sector is leading to major conflicts.

- **G20 Global Forum on Steel Excess Capacity:** The G20 Global Forum on Steel Excess Capacity is a central forum for solving the problem of overcapacities in the steel sector and increasing transparency. China is also a member.
  - The mandate should be extended beyond 2019.
  - The members of the Global Forum should implement the existing recommendations fully and promptly.
  - Overcapacities in other sectors such as aluminium and high-tech industries must be urgently avoided or addressed.

- **Restore unity among the G7:** As a central forum of like-minded partners, the G7's international cooperation goes way beyond economic cooperation. As a community of interests and values, the G7 sets standards for democracy, the rule of law, human rights, the market economy and the rule-based international trading system. The strength of the G7 depends on the unity of the seven nations and the European Union, with which they jointly undertake to advance the rule-based trading system and provide an alternative to protectionism and isolation through uniform rules and standards.
  - The G7 must restore their political unity. "6+1 solutions", as at last year's G7 summit, should be avoided.
  - The G7 must jointly commit to free trade and support the WTO's rule-based international trading system. Even if China is not a member of the G7, the decisions are important signals.

Cooperation with China

Cooperation with China is essential not only for the further development of the WTO or for solving global problems such as climate change. Wherever possible, Germany and the EU should actively involve China and call on it to share responsibility for solving common problems. It is also true of the multilateral institutions and international projects initiated by China that commitment and cooperation are fundamentally in the interests of Germany and Europe. We must let China know that we are ready to cooperate if the goals and rules of institutions and projects such as the AIIB or BRI are in line with established international standards. The above-mentioned measures are not intended to impede Chinese economic expansion, but to legitimately criticise such award procedures and projects that do not comply with international standards.

Demands:

- **Intensify dialogue with China on WTO reform:** The working group on the further development of the WTO agreed at the 20th EU-China Summit offers a first approach for developing solutions for reconciling interests within the WTO together with China. The working group will discuss Chinese trade practices such as market-distorting subsidies, forced technology transfer and the role of state-owned enterprises. The EU should remind China of its responsibility for the functioning of the multilateral trading system in these areas.

- **Active involvement in Chinese international initiatives:** Germany and Europe should take China's attempts to further develop the global regulatory framework seriously and participate in Chinese multilateral institutions and international projects (e.g. AIIB, BRI) if their working methods comply with international standards. Only through participation is constructive criticism and co-designing according to European values and norms made possible. However, participation is not an end in itself. Political instrumentalisation of the participation of Germany or the EU in Chinese initiatives should be avoided.

- **Negotiate a comprehensive investment agreement between the EU and China.** Negotiations should not only focus on protecting existing investments but should also seize the opportunity for the first time to negotiate within this agreement improvements in market access. The existing asymmetry in market access between China and Europe must be removed. Negotiations should build on the market access improvements already announced by China.

- **Leverages as solutions:** Areas in which there are strong common interests, such as health policy and the health sector, can be a lever for more market opening on the Chinese side.

- **Integrating China into global health policy:** The further development of a global health policy should be an integral part of the common multilateral agenda with China. An important step could be a health roadmap for the health authorities to implement the UN's Sustainable Development Goals. The UN High Level Forum this year, in which Universal Health Coverage is being discussed, also offers an excellent opportunity to shape global health policy together with China.

Coordination with like-minded partners on China

In view of the increasing competition with China, a purely cooperative approach is not sufficient. German industry is not alone internationally in its demands regarding China's economy. Coordination with partners in other liberal market economies is becoming increasingly important. Instead of seeking individual answers, the German government and the EU Commission should aim for a coordinated approach. Actors in German and European politics should coordinate more closely with like-minded partners, in particular open and liberal market economies. The EU must strengthen its foreign policy profile in the world. Its channels should not be limited to official diplomacy but should also include other forms of exchange. One example of this were the adjustments in national legislation in the EU, Japan and the USA in with regard to anti-dumping in 2016 and 2017 in preparation for the expiry of transition periods in the WTO accession protocols with China. The exchange between the experts of the above-mentioned administrations on alternative pricing mechanisms relating to anti-dumping instruments has proved to be extremely helpful here.

Demands:

- **Close coordination with like-minded partners:** Germany and the EU must make even more active efforts to act together with other liberal and open market economies. Therefore we urgently need close and targeted coordination on China and its economic model with like-minded partners. A pragmatic approach with coalitions on specific issues should be pursued. Despite current trade policy differences, coordination on China-related issues should also continue to be sought with the USA. The USA remains the EU's most important geopolitical partner. But partnership also means identifying one's own interests and opposing strategies that run counter to these interests, such as containment or de-coupling. Overall, the companies of all G7 partners in China face the same barriers to trade and investment.

- **Plurilateral agreements among liberal market economies:** A more comprehensive WTO reform is likely to be a lengthy undertaking. In the medium term, another option for closing existing gaps in WTO law quickly and efficiently could be to set new rules among like-minded partners.
  - The BDI advocates striving for plurilateral agreements among OECD countries for instance on competition law, investment and technology protection, which would ensure a level playing field in competition with state-dominated national economies.
  - The aim should be to ensure the highest possible level of integration with uniform and high standards within the circle of market economy countries. For countries outside this circle, on the other hand, not only incentive but also control and transparency mechanisms are called for, which encourage companies from these countries to adhere to strengthened rules in the markets of the like-minded.

Foreign policy and foreign trade policy offensive

In addition to deepening cooperation with like-minded partners, another pillar of international cooperation is a foreign policy offensive, which targets the countries of Eastern Europe, Central Asia, Southeast Asia, Latin America and Africa. In recent years, these regions have become geographical focal points for the implementation of BRI, triggering new competition for influence. The experience of recent years has shown that BRI projects can be associated with considerable economic and political risks for the target countries of the projects, especially the over-indebtedness to Chinese donors. On the one hand, it is important to raise awareness and highlight the advantages of sustainable and transparent projects. At the same time, European involvement in these countries must be stepped up. The expansion of EU-funded project business in Europe's periphery plays a particularly important role here.

German industry continues to be interested in close economic exchange with China and rejects targeted and politically forced economic de-coupling. Nevertheless, German industry generally believes that it makes sense to maintain diversified trade relations and investment decisions. Excessive dependence on a single market is always associated with political and economic risks that must be minimized. In order to promote the diversification of sales and procurement markets as well as production locations, the corresponding framework conditions for companies should be improved. The further expansion of trade and/or investment agreements by the EU – particularly in the growth region of Asia – is a central pillar. Strengthening foreign trade promotion instruments is also necessary to open up new foreign markets.

Demands:

- **Creating EU alternatives to China's BRI:** The EU Connectivity Strategy published in September 2018 offers a good basic approach and should be rapidly developed and implemented. Its potential to link up with BRI as well as the Free and Open Indo-Pacific Strategy launched by Japan and Australia should be examined.

- **Promote pilot projects and platforms:** Joint services offered by German and European industry must be promoted through platforms and be supported politically through pilot projects. More high-ranking political support for the projects is important in many third markets.

- **Expansion of modern trade and investment agreements:** Against the background of the fragile state of the multilateral trade order, it is becoming increasingly important for the European Union to strengthen rule-based trade through bilateral free trade agreements, to open up markets and to disseminate European standards and values internationally. The ratification of the EU free trade agreements with Japan, Singapore and Vietnam are important steps, as is the new EU approach of concluding trade agreements as EU-only agreements in order to simplify and accelerate ratification. These agreements are of great benefit to companies and serve as models for the desired economic agreements with the other ASEAN states and with Australia and New Zealand.

- **Strengthening foreign trade promotion:** Foreign trade promotion instruments such as trade fairs, market development programmes or export credit guarantees help companies with their foreign business and especially the development of new markets. Export credit and investment guarantees in particular are an indispensable instrument for promoting the diversification of German export markets. Without sufficient cover, access to foreign markets is restricted for many enterprises. The adjustment of local costs in Hermes Cover is just as much a core concern of German industry as the availability of accompanying attractive financing instruments. Germany should therefore:
  - facilitate access to export credits, especially for smaller order volumes (“small tickets”);
  - apply export controls in accordance with international agreements;
  - reject extraterritorial sanctions;
  - promote and secure foreign direct investment from Germany in other Asian countries.

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