

## Policy Paper

# A New Age of Transatlantic Alliance?

U.S. China policy after the presidential election and its implications for the EU

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The Covid-19 pandemic and growing tensions between the U.S. and China brought even greater global attention to this year's American presidential election. Despite the victory of the Democratic challenger Joe Biden, America's relations with China will not significantly alter and rather resemble an iron fist in a velvet glove. While U.S.-China great power rivalry will remain the new reality, Biden's victory could mark the beginning of a new transatlantic alliance and contribute to the EU's geopolitical ambition. In this policy paper, Anna Stahl and Yixiang Xu argue that the EU should seize the opportunity of U.S. interest in closer collaboration on China and offer a ten-point agenda for an EU-U.S. dialogue on China. Moreover, this policy paper offers innovative policy recommendations for new formats of trilateral and multilateral cooperation with China and the U.S.

## Executive summary

The exceptional challenge of the Covid-19 pandemic and growing tensions between the United States (U.S.) and China brought even greater global attention to this year's American presidential election. This policy paper provides further insights into how the victory of the Democratic challenger Joe Biden will affect future Sino-American relations. It demonstrates that despite a potential moderation in U.S. policy discourse, **U.S.–China rivalry will remain the new reality**. While President-elect Biden's victory will not significantly alter America's relations with China, it could mark **the beginning of a new transatlantic alliance with the European Union (EU)**.

This policy paper presents a **ten-point agenda for an EU–U.S. dialogue on China** and makes further suggestions for concrete **trilateral** and **multilateral cooperation between the EU, U.S. and China**.

1. Revive transatlantic coordination on trade issues with China
2. Expand cooperation on investment screening of Chinese FDI
3. Explore transatlantic technology cooperation to better respond to China's rising digital power
4. Foster transatlantic coordination on Chinese disinformation campaigns and cyber threats
5. Consult on risks to raw material supply chains
6. Jointly monitor China's activities under the BRI and coordinate European and U.S. infrastructure efforts in Asia
7. Defend democracy and coordinate human rights sanctions against China
8. Support a strategic NATO response to China
9. Promote transatlantic think tank dialogues on China
10. Mutually reinforce European strategic sovereignty and transatlantic cooperation

In this policy paper, we argue that the new U.S. administration's interest in collaborating with the EU to address the China challenge could **boost the EU's position as a geopolitical actor**. In order to expand its geopolitical impact, and avoid getting caught up in Sino-American great power rivalry, the EU should:

1. Continue efforts to enhance European strategic autonomy
2. Promote and actively shape the EU-U.S. dialogue on China
3. Explore a new trilateral dialogue with the U.S. and China
4. Defend and reinvigorate multilateral cooperation

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## Introduction

Following the United States (U.S.) presidential election on 3 November 2020, Democratic challenger Joseph Biden triumphed over the incumbent Donald Trump, and Europeans longing for a return to the age of transatlantic partnership rushed to celebrate. Within minutes of the race being called, congratulatory notes for President-elect Biden started to pour in from European leaders. In contrast, Beijing remained silent as President Trump refused to concede and only acknowledged Biden's victory a week later. The disparity in European and Chinese reactions reveals different expectations from Brussels and Beijing on the future of their relationship with the U.S. It also confirms the assessment of the EU's High Representative for Foreign Affairs and Security Policy, Josep Borrell, that "U.S.–China strategic rivalry will be the dominant organising principle for global politics, regardless who wins the next presidential U.S. elections".<sup>1</sup> President-elect Biden's China policy will likely differ from his predecessor in style rather than substance. Yet, in contrast to Trump's unilateral foreign policy, the incoming administration has identified the European Union (EU) as a key player in addressing the China challenge.

Although President-elect Biden and Vice President-elect Kamala Harris will not take office until 20 January 2021, the EU has seized what it considers "a once-in-a-generation opportunity" to propose a forward-looking EU–U.S. alliance for global cooperation in the 21<sup>st</sup> century.<sup>2</sup> China plays a key role in this new transatlantic alliance. The EU's proposal underlines that "as open democratic societies and market economies, the EU and the U.S. agree on the strategic challenge presented by China's growing international assertiveness". Moreover, European policymakers underline that the new transatlantic partnership should be the "linchpin of a new global alliance of like-minded partners" and recommend the establishment of a new EU-U.S. dialogue on China. Against this background, this paper argues that while President-elect Biden's victory will not significantly alter America's relations with China, it does present an opportunity for such a new transatlantic alliance and could enhance the EU's geopolitical role.

We start by providing insights into the future of the U.S.–China relationship under the new Biden administration. Having concluded a likely continuation of U.S.–China confrontation, we then look at the implications for the EU and formulate a 10-point EU agenda for a transatlantic dialogue on China. Finally, we stress that in order to pursue its own geopolitical agenda, the EU needs to remain open to engagement with China. To do so, we propose a new format of trilateral cooperation and offer recommendations on how the EU could strengthen multilateralism.

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<sup>1</sup> Josep Borrell, "China, the United State and us", EEAS Blog post, 31 July 2020.

<sup>2</sup> European Commission and EU High Representative for Foreign Affairs and Security Policy, "A new EU-US agenda for global change", Brussels, 2 December 2020.

## 1 From transatlantic engagement with a rising China to the new reality of U.S.–China rivalry

Initially, both the U.S. and EU advocated the idea of engagement with a rising China. Successive generations of American and European policymakers since China’s “reform and opening-up” era of the late 1970s sought to integrate the country into the liberal international order as a “responsible stake holder”.<sup>3</sup> Western engagement policy rested on the assumption that China’s economic liberalisation would gradually transform its political system and in turn strengthen the liberal international order. This and the increasing commercial benefits from closer economic ties with China drove both the U.S. under President Bill Clinton and the EU to push for China’s accession to the World Trade Organisation (WTO), one of the most consequential episodes in the country’s astronomical growth and expanding global influence.

However, American and European hopes for a broader economic and political transformation of China were dashed.<sup>4</sup> Central economic planning remains the centrepiece of government industrial policy and state-owned enterprises (SOEs) strengthened their control of strategic industries. Since Xi Jinping took over the reign of the Communist Party of China (CPC) in 2012, he has pushed aggressively to strengthen CPC leadership in all aspects of the Chinese society. Hence, as China’s economic power grew, its political system became less free. President Xi also initiated a more assertive Chinese foreign policy. To restore China to its rightful great power status<sup>5</sup> and expand its global influence, the Chinese leadership launched the “Belt and Road Initiative” (BRI), as well as stoking nationalist fervour. This has fuelled China’s so-called “wolf warrior” diplomacy, which is characterised by combative rhetoric and aggressive reactions to foreign criticism.<sup>6</sup> China’s assertive diplomacy became particularly pronounced during the Covid-19 pandemic, when Beijing launched propaganda campaigns to restore its international image and portray its authoritarian response to the virus as superior.

Against the background of China’s transformation, as well as domestic discontent with America’s perceived decline, U.S. strategy regarding China has shifted away from engagement towards growing rivalry. This shift started under President Barack Obama. In 2011, the then U.S. secretary of state Hillary Clinton announced “America’s Pacific Century”,<sup>7</sup> raising the prominence of the Asia-Pacific for U.S. foreign policy and paving the way for the administration’s subsequent strategic rebalancing towards the region. The aim of the U.S. pivot to Asia was to reallocate U.S. diplomatic, economic and military resources, which had long been focused on Europe and the Middle East, to take into account Asia’s growing importance.<sup>8</sup> Although Obama’s strategic rebalancing to the Asia-Pacific did not seek overt confrontation with China, Beijing was quick to interpret U.S. efforts as a new containment policy.

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<sup>3</sup> Robert Zoellick, “*Whither China? From Membership to Responsibility*,” Remarks to the National Committee on U.S.-China Relations, New York City, 21 September 2005.

<sup>4</sup> Edward Wont et al., “*The Long Run: Biden’s China Journey*,” The New York Times, 6 September 2020.

<sup>5</sup> Rush Doshi, “*Xi Jinping just made it clear where China’s foreign policy is headed*,” The Washington Post, 25 October 2017.

<sup>6</sup> Zhiqun Zhu, “*Interpreting China’s ‘Wolf-Warrior Diplomacy’*,” The Diplomat, 15 May 2020.

<sup>7</sup> Hillary Clinton, “*America’s Pacific Century*,” Foreign Policy, 11 October 2011.

<sup>8</sup> Kurt Campbell, *The Pivot: The Future of American Statecraft in Asia*, New York: Twelve, 2016.

Tension between Washington and Beijing increased significantly under President Donald Trump amid his “America First” policy. During his 2016 campaign, Trump railed against China, claiming the U.S. was being “ripped off” and promised to end his predecessors’ failure by getting tough on China.<sup>9</sup> Since then, a bipartisan consensus has emerged in Washington that the idea of transforming China has failed and it is now an authoritarian rival.<sup>10</sup> This shared sense of new reality is best illustrated by the 2017 National Security Strategy (NSS), which states: “China and Russia challenge American power, influence, and interests, attempting to erode American security and prosperity”.<sup>11</sup> The document labels China as a “strategic competitor” and underlines that American policy towards China will no longer be based on détente or compromise.<sup>12</sup>

China also played a key role in the 2020 U.S. presidential election.<sup>13</sup> Because of the outbreak of the coronavirus, the growing U.S. rivalry with China became an important domestic issue which will present the Democratic President-elect Joe Biden’s administration with unprecedented challenges when he takes office. The pandemic has resulted in the worst public health crisis in the U.S. for a century and dragged its economy into a painful recession. Kurt M. Campbell, the top Asia official in the Obama State Department and a senior advisor to the Biden campaign, suggested that Democrats largely share Trump’s diagnosis of China’s “predatory practices”.<sup>14</sup> Despite Biden’s long record of support for engagement with China, his administration is likely to differ with its predecessor more in style than in actual policy.

After 40 years of economic integration, the world’s two largest economies have become closely intertwined and U.S.–China relations have become more multifaceted. The “new era of great-power competition”<sup>15</sup> will therefore affect a variety of different policy areas, including trade and investments, technology, security, as well as democracy and human rights.

Joe Biden will continue the U.S. focus on **China’s unfair economic policies and trade practices**. He criticised Beijing’s trade abuses that he claimed hurt American workers. Recognising that Trump’s “Phase One” trade agreement with China achieved little of the structural reforms the U.S. had sought, the Biden administration is likely to seek an enforceable solution to U.S. concerns regarding fair trade and market access. Alongside the trade conflict, concerns have grown over the increase of Chinese foreign direct investments (FDI) in the U.S., which peaked at \$46.5 billion in 2016.<sup>16</sup> Since 2018, the U.S. government has tightened its investment screening through the adoption of U.S. Foreign Investment Risk Review Modernization Act (FIRRMA), that expands the jurisdiction of the Committee on Foreign Investment in the United States (CFIUS).<sup>17</sup>

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<sup>9</sup> Transcript: *Donald Trump Expounds on His Foreign Policy Views*, The New York Times, 26 March 2016.

<sup>10</sup> Linling Wei, “China’s Xi Speeds Up Inward Economic Shift”, The Wall Street Journal, 12 August 2020.

<sup>11</sup> “National Security Strategy of the United States of America”, December 2017, p. 2–3.

<sup>12</sup> Daniel H. Rosen, “A Post-Engagement US-China Relationship?”, Rhodium Group, 19 January 2018.

<sup>13</sup> Charlie Campbell, “Trump says China wants him to lose the U.S. presidential election. The truth is more complex”, Time, 29 September 2020.

<sup>14</sup> Jacob M. Schlesinger, “What’s Biden’s New China Policy? It Looks a Lot Like Trump’s”, The Wall Street Journal, 10 September 2020.

<sup>15</sup> U.S. Department of State, Policy Planning Staff, “The Elements of the China Challenge”, Washington D.C., November 2020.

<sup>16</sup> Alan Rappeport, “Chinese Money in the U.S. Dried Up as Trade War Drags On”, The New York Times, 21 July 2019.

<sup>17</sup> U.S. Department of Treasury, “Summary of the Foreign Investment Risk Review Modernization Act of 2018” (FIRRMA), Washington D.C.

These concerns fuelled the rhetoric for **decoupling the U.S. and Chinese economies**. The COVID-19 pandemic has amplified U.S. efforts to become less dependent on China and selective U.S.-China decoupling will persist. Biden agrees on the need to shift strategic supply chains, such as pharmaceuticals and rare earth, away from China and back to the U.S. His campaign pledged to review critical risks in supply chains during his first 100 days in office and work with Congress to enact a mandatory quadrennial Critical Supply Chain Review to institute this process on a permanent basis. To incentivise moving important corporate supply chains out of China, Biden signalled a more proactive U.S. industrial policy. His “Build Back Better” economic plan leverages government support to promote investment in domestic industries and research and compete with China, especially in strategic high-tech sectors such as artificial intelligence, quantum computing and 5G.<sup>18</sup>

The present bipartisan consensus on denying China **access to critical technologies** and U.S. digital infrastructure based on a broad national security assessment means the Biden administration will continue to pursue technology decoupling from China. The Trump administration has already cut the Chinese telecommunications technology company Huawei off from advanced semiconductor chips and attempted to force TikTok to divest its U.S. operations. Furthermore, Xi’s military-civilian fusion strategy of exploiting advanced technologies to reach “military pre-eminence”<sup>19</sup> is increasingly compelling Washington to cast a wider net and set a higher bar for national security considerations regarding technology transfers to Chinese entities. Biden’s campaign reference to a world divided by “techno-democracies and techno-autocracies”<sup>20</sup> highlights U.S.-China systemic rivalry in this arena. His administration will make a clear distinction between a Washington-led technology ecosystem that fosters greater freedom and a Beijing-dominated one that exports greater surveillance and censorship. Thus, the U.S. is likely to continue efforts such as the “Clean Network Program” to exclude Huawei’s equipment from allies’ and partners’ 5G network infrastructures and contest Beijing’s internet governance agenda globally.

As Obama’s Vice President, Joe Biden contributed to the U.S. **“pivot” to the Indo-Pacific region**. He supported the decision to carry out a “show of force” in the region, by moving 60 percent of U.S. sea power to Asia to protect U.S. security interests,<sup>21</sup> as well as flying U.S. bombers and sailing warships through China’s self-proclaimed air defence identification zone (ADIZ).<sup>22</sup> America has become increasingly concerned about China’s militarisation of the South China Sea region, which threatens freedom of navigation in regional waters as well as the security of U.S. allies in the Indo-Pacific.<sup>23</sup> To counter Chinese naval ambitions in the region, the Trump administration further increased U.S. naval presence in the South China Sea and started recruiting allies and partners to enhance military deterrence against China. The Biden administration could continue to enhance U.S. military posturing

<sup>18</sup> Darrell M. West and Nicol Turner Lee, “What to expect from Biden-Harris on tech policy, platform regulation, and China”, Brookings Institution, 13 August 2020.

<sup>19</sup> Daniel N. Hoffman, “The US cannot compete with China if our military doesn’t invest in R&D”, The Hill, 13 July 2020.

<sup>20</sup> Biden foreign policy advisor Anthony Blinken on top global challenges, CBS News, 25 September 2020.

<sup>21</sup> Transcript: *The December Democratic debate*, The Washington Post, 20 December 2019.

<sup>22</sup> Thom Shanker, “U.S. Sends Two B-52 Bombers Into Air Zone Claimed by China,” The New York Times, 26 November 2013.

<sup>23</sup> Derek Grossman, “Military Build-up in the South China Sea” in L. Buszynski and D. Thanh Hai, *The South China Sea: From a Regional Maritime Dispute to Geo-strategic Competition*, London: Routledge, 2020, pp. 182-200.

and upgrade alliances with Japan, India, and Australia through the Quadrilateral Security Dialogue (QUAD). Trump has also issued an executive order prohibiting Americans from investing in Chinese firms that Washington believes to be close to the Chinese Liberation Army (PLA), a policy Biden may continue owing to growing bipartisan calls to check **China's military ambitions**.<sup>24</sup>

The Biden administration will also continue to tighten scrutiny over all aspects of Chinese activities abroad and respond to **China's engagement in third countries** under the Belt-and-Road initiative (BRI) in the region. The newly established U.S. International Development Finance Corporation (IDFC) is intended to step up competition with China's infrastructure investment under the BRI.<sup>25</sup> Subsequently, the U.S. government announced the Blue Dot Network in partnership with Japan and Australia, countering the Chinese investment model with emphasis on financial transparency, environmental sustainability and more equitable economic development.

Biden had indicated that his administration's **trade policy** would strike a different tone than that of his predecessor, who withdrew the U.S. from the Trans-Pacific Partnership (TPP). Yet, despite the recent conclusion of the Regional Comprehensive Economic Partnership (RCEP) that strengthens China's economic position in the Asia-Pacific, Biden recently announced that he is "not going to enter any new trade agreement with anybody until we have made major investments here at home and in our workers".<sup>26</sup> The lack of public support for large-scale multilateral trade agreements and the push by progressive Democrats to concentrate on a more proactive national industrial policy will constrain the Biden administration's ability to pursue large-scale trade agreements that could effectively compete with Chinese efforts.<sup>27</sup>

The **protection of human rights and democracy** will also feature prominently on Biden's foreign policy agenda. It's likely that the new administration will continue to frame the U.S.-China rivalry as an ideological battle between democracy and authoritarianism. Biden's campaign categorised the Chinese government's oppression of Uyghur Muslims and other ethnic minorities in the Xinjiang region as "genocide" and vowed to impose sanctions and commercial restrictions on Chinese officials and entities responsible for the repression.<sup>28</sup> U.S. sanctions on Chinese officials and entities involved in the enforcement of the new national security law in Hong Kong are also likely to persist.

This ideological struggle will be intensified as the **U.S. Congress plays a more active role in shaping U.S. China policy**. Congress has been seeking to reassert its prerogatives in foreign policy after decades of creeping deference to the executive, a trend that will continue post-election and will make Congress an independent authority on U.S. China policy. As the relationship with China increasingly blends U.S. foreign and domestic policies, members of Congress have reached a broad

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<sup>24</sup> Jazmin Goodwin and Sherisse Pham, "Trump bans American from investing in Chinese firms he claims have ties to the military", CNN, 13 November 2020.

<sup>25</sup> Daniel Kliman, "Leverage the new US International Development Finance Corporation to compete with China", The Hill, 16 November 2018.

<sup>26</sup> Thomas L. Friedman, "Biden Made Sure 'Trump Is Not Going to Be President for Four More Years'", New York Times, 2 December 2020.

<sup>27</sup> Rick Helfenbein, "TPP, Tariffs And China: What Biden Might Do On U.S. Trade Policy", Forbes, 25 August 2020.

<sup>28</sup> Trevor Hunnicut, "Biden says new China national security law a 'death blow,' weighs sanctions", Reuters, 1 July 2020.



bipartisan consensus that the U.S. has for too long turned a blind eye to China's growing influence and global ambitions. Over 360 China-related bills have been introduced in the 116<sup>th</sup> Congress, ranging from information technology procurement to human rights.<sup>29</sup> While Democrats will hold their razor-thin majority in the House of Representatives, Republicans could retain control of the Senate. A divided government could see Senate Republicans strongly opposing any Biden attempts at de-escalation with China in both strategic and tactical terms.

**Box 1: Potential elements of conflict with China under the new U.S. administration**

- Unfair Chinese economic and trade practices
- Chinese access to critical and emerging technologies amid Beijing's drive to expand military-civilian fusion
- U.S. and allies' digital infrastructure security and exposure to the Chinese digital ecosystem
- National security and strategic implications of Chinese FDI
- Supply chain dependence on China
- Chinese military ambitions in the Indo-Pacific region
- China's engagement in third countries, especially its infrastructure investment in developing countries through the Belt and Road Initiative (BRI)
- Beijing's efforts to dominate the regional economic order through new trade agreements in the Indo-Pacific
- Protection of human rights and democracy

## 2 The EU and U.S.–China big power competition

The rise of China has also prompted the EU to readjust its relations with Beijing.<sup>30</sup> In recent years, EU member states have steadily moved towards a more unified position on China.<sup>31</sup> Like U.S.–China relations, the EU–China relationship has become more complex, covering a wide range of sectoral dialogues on topics such as regional policy, environment, food safety, agriculture, rule of law, maritime security.<sup>32</sup> Like the U.S., the EU recognises a growing number of challenges posed by China.<sup>33</sup> This is reflected in the EU's 2019 policy document on China, which not only recognises China as a strategic partner, but also views the country as an “economic competitor” and “systemic rival”.<sup>34</sup> Thus, “engagement” is no longer the sole paradigm for framing EU policies towards China.

**“The rise of China has also prompted the EU to readjust its relations with Beijing.”**

In light of the U.S.–China rivalry, a policy debate surfaced in Europe over whether the EU should keep its equidistance vis-à-vis both the U.S. and China. The EU's High Representative for Foreign Affairs and Security Policy, Josep Borrell, has expressed reservations about such a position. He highlighted the fact that the EU

<sup>29</sup> Advanced search for legislation, GovTrack.us, accessed on 22 October 2020.

<sup>30</sup> François Godement and Gudrun Wacker, “France and Germany Together. Promoting a European China Policy”, Policy Paper, Institut Montaigne, November 2020.

<sup>31</sup> Janka Oertel, “The new China consensus: How Europe is growing wary of Beijing”, European Council on Foreign Relations (ecfr), 7 September 2020.

<sup>32</sup> European External Action Service (EEAS), “EU-China Dialogue Architecture”, November 2015

<sup>33</sup> European Commission, “Statement by President von der Leyen at joint press conference with President Michel, following the EU-China summit videoconference”, Brussels, 14 September 2020.

<sup>34</sup> European Commission and EU High Representative for Foreign Affairs and Security Policy, “EU-China -A strategic Outlook”, Brussels, 12 March 2019.

shares fundamental concerns regarding China with the U.S. and stressed the need for “strong cooperation with like-minded democracies”.<sup>35</sup> In the spirit of revitalising transatlantic cooperation, European policymakers proposed a new EU–U.S. dialogue on China in June, which was accepted by Secretary of State Mike Pompeo.<sup>36</sup> This new forum between the EU’s European External Action Service (EEAS) and the U.S. Department of State was officially launched in November 2020.<sup>37</sup> The EEAS is not the only European institution contributing to a nascent transatlantic dialogue on China. The U.S. Congress and European parliamentarians’ growing interest in shaping the future of their respective China policies has led to the founding of the Inter-Parliamentary Alliance on China (IPAC), a body of parliamentarians from democratic countries. So far, sixteen members of the European Parliament (MEPs), as well as parliamentarians from European member states have joined the IPAC.

Despite this growing awareness of shared concerns, Trump’s unilateral pursuit and his disdain for international norms and institutions, as well as major inconsistencies in his China policy,<sup>38</sup> created major tensions with the EU and seriously threatened the transatlantic partnership. This could change under President-elect Biden, who chastised Trump for “poking our finger in the eyes of all of our allies out there”.<sup>39</sup> Contrary to Trump’s complete disregard for the European project, Biden has long praised European integration for the benefit of creating a peaceful and prosperous Europe and aiding U.S. interest in upholding the liberal international order. This conviction is also validated by growing recognition of the EU as a global actor in Washington. While national governments in Europe remain preferred partners for U.S. policy engagements, a number of recent U.S. policy documents by think tanks and the Congress<sup>40</sup> explicitly refer to the EU as a “critical interlocutor”.<sup>41</sup>

This growing convergence of views has prompted Biden and his transition team to see the EU as a potential ally against China. Biden’s nominee for Secretary of State Anthony Blinken and National Security Advisor Jake Sullivan both warned against Beijing’s exploitation of internal EU divisions and called for transatlantic cooperation.<sup>42</sup> In turn, the EU’s recent proposal for a new transatlantic agenda explicitly refers to the establishment of a new EU-U.S. dialogue on China as “a key mechanism for advancing our interests and managing our differences”.<sup>43</sup>

**“Contrary to Trump’s complete disregard for the European project, Biden has long praised European integration.”**

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<sup>35</sup> Josep Borrell, “China, the United State and us”, EEAS blog post, 31 July 2020.

<sup>36</sup> David H. Herszenhorn, “Pompeo says US ready to team up on China, but EU eyes a post-Trump world”, Politico, 25 June 2020.

<sup>37</sup> U.S. Department of State, “Launch of the U.S.-EU Dialogue on China”, Media Note, Washington D.C., 23 October 2020.

<sup>38</sup> Philip H. Gordon and James Steinberg, “Trump’s Flip-Flops on China Are a Danger to National Security”, Foreign Policy, 29 July 2020.

<sup>39</sup> Babara Sprunt, “Biden Would End Border Wall Construction, But Wouldn’t Tear Down Trump’s Additions”, National Public Radio, 5 August 2020.

<sup>40</sup> U.S. Senate, Committee on Foreign Relations, “The United State and Europe: A Concrete Agenda for Transatlantic Cooperation on China”, Majority Report, Washington D.C., November 2020.

<sup>41</sup> Julie Smith et al., “Charting a Transatlantic Course to Address China”, Centre for a new American Security (CNAS) German Marshall Fund (GMF), October 2020, p.11.

<sup>42</sup> Hal Brands and Jake Sullivan, “China has two paths to global domination”, Foreign Policy, 22 May 2020.

<sup>43</sup> European Commission and EU High Representative for Foreign Affairs and Security Policy, “A new EU-US agenda for global change”, Brussels, 2 December 2020, p.8.

Both the EU's and America's relations with China are multifaceted and cover multiple policy areas. Thus, the new EU–U.S. dialogue on China should go beyond the initial format of exchanges between the EEAS and the State Department. Instead, **more sustained exchanges at all levels on a range of policy priorities** regarding China are needed. A debate over the agenda for this new dialogue has already started in Washington. The U.S. Congress, as well as several think tanks,<sup>44</sup> have presented proposals for a transatlantic roadmap on China.<sup>45</sup> While the EU has made a first step,<sup>46</sup> European policymakers should not let the U.S. alone set the agenda of the new transatlantic dialogue on China. As time is of the essence, the **EU needs to be more proactive and formulate its own proposals.**

European policymakers should consider **several principles**. China will remain a key global player and continue to change the international environment in the decades to come. Brussels should thus use the current political opportunity in Washington to propose an **ambitious** but **flexible** transatlantic agenda on China. While there are some areas where European and American interests regarding China converge, there are also issues on which the U.S. and EU do not see eye to eye. The EU should therefore set **realistic** expectations in terms of transatlantic cooperation on China. If ambitious policy aspirations are not followed by results, a wide array of stalled and half-hearted initiatives could lead to regret and misunderstanding between the transatlantic partners. Thus, the ambitious overall agenda should be broken down into **areas of tangible cooperation**. The EU should identify several low-hanging fruits that could be tabled to kick-start the transatlantic dialogue on China, while maintaining dialogues with the U.S. on more contentious issues.

**“China will remain a key global player and continue to change the international environment in the decades to come.”**

#### **Box 2: Recommendations for an EU transatlantic agenda on China**

- Articulate own European **interests** vis-à-vis China and be firm on the EU's **values and principles**, e.g. free trade, digital privacy
- Be prepared to engage in sustained transatlantic dialogues **at all levels** on a **range of priority policy areas**
- Be **ambitious** with a long-term vision of the transatlantic partnership's potential, but have **realistic expectations** based on institutional and political limitations on both sides of the Atlantic
- Be **flexible** and be ready to negotiate and **make necessary compromises**
- Adopt a **results-oriented approach** towards issues of practical cooperation with the U.S.

In the following section, we identify 10 priority areas the EU should address with the new U.S. administration to construct an effective EU-U.S. dialogue on China.

<sup>44</sup> Julie Smith et al., “*Charting a Transatlantic Course to Address China*”, Centre for a new American Security (CNAS) German Marshall Fund (GMF), October 2020; Paul Gewirtz, “*The future of trans-Atlantic collaboration on China: What the EU-China summit showed*”, Brookings Institution, 26 June 2020; Heather A. Conley, “*Complicated but Necessary: A Transatlantic Policy Approach toward China*”, Centre for Strategic & International Studies (CSIS), 5 October 2020.

<sup>45</sup> U.S. Senate, Committee on Foreign Relations, “*The United State and Europe: A Concrete Agenda for Transatlantic Cooperation on China*”, Majority Report, Washington D.C., November 2020.

<sup>46</sup> European Commission and EU High Representative for Foreign Affairs and Security Policy, “*A new EU-US agenda for global change*”, Brussels, 2 December 2020, p.8.

## 3 A 10-point agenda for an EU–U.S. dialogue on China

### 3.1 Revive transatlantic coordination on trade issues with China

Over the past years, structural tensions in economic relations between the EU and China have amplified.<sup>47</sup> As the EU has become China’s largest trade partner, conflicts have emerged on the distortive effects of Chinese economic practices and the EU has expressed demands for a more balanced trade relationship. Talks on an EU-China Comprehensive Investment Agreement (CAI) have dragged on since 2013. Although the two sides have recently renewed the push to reach an agreement by the end of 2020,<sup>48</sup> significant differences remain on sticking points like market access and European policymakers have started to put in place a more robust approach. The adoption of the EU’s White Paper on foreign subsidies<sup>49</sup> to establish a level playing field in the EU’s internal market vis-à-vis subsidies from China, as well as debates over an International Procurement Instrument (IPI)<sup>50</sup> illustrate the EU’s growing emphasis on defensive economic instruments.

The EU and U.S. share the common objective of free and fair market access vis-à-vis China. Biden’s pledge to coordinate with the EU on trade issues, which he could reaffirm by lifting the section 232 tariffs<sup>51</sup> early on in his tenure, could create an opportunity to revive transatlantic trade cooperation in general and on China more specifically. Officials from the Commission’s DG Trade and the European Chamber of Commerce in China should seek closer coordination with their American counterparts to reform WTO rules in order to strengthen free trade and compliance regarding China, and to promote high standard trade agreements with partners in the Asia-Pacific region.

### 3.2 Expand cooperation on investment screening of Chinese FDI

Alongside expanding Sino-European trade, Chinese investments into the EU have increased substantially over the last decade.<sup>52</sup> As in the U.S., these investments have increasingly raised economic, political and national security concerns among European policymakers.<sup>53</sup> As the EU’s competences regarding investment policy have been strengthened, attempts have been made to establish a more unified

**“Chinese investments into the EU have increased substantially over the last decade.”**

<sup>47</sup> Nils Redeker and Anna Stahl *“Pushed by the pandemic: Shaping Europe’s changing geo-economic relations with China”*, Policy Paper, Jacques Delors Centre, 16 November 2020.

<sup>48</sup> Wendy Wu, *“EU and China set for further investment talks as end-of-year deadline for deal looms”*, South China Morning Post, 14 December 2020.

<sup>49</sup> European Commission, *“White Paper on levelling the playing field as regards foreign subsidies”*, Brussels, 17 June 2020.

<sup>50</sup> Jorge Valero, *“Hogan convinces MEPs by toughening up trade stance”*, Euractiv, 1 October 2019.

<sup>51</sup> A Section 232 investigation is conducted under the authority of the Trade Expansion Act of 1962. The purpose of the investigation is to determine the effect of imports on national security. On 24 January 2020, the United States adopted new tariffs under Section 232 on imports of certain derivative steel and aluminum products, which applies to most countries including the EU, effective from 8 February 2020 and with an unlimited duration.

<sup>52</sup> Agatha Kratz et al., *“Chinese FDI in Europe 2019 Update”*, Mercator Institute for China Studies (MERICS), 8 April 2020.

<sup>53</sup> Frank Bickenbach and Wan-Hsin Liu, *“Chinese Direct Investment in Europe – Challenges for EU FDI Policy”*, CESifo Forum 4/2018, Volume 19.

European framework for screening foreign investments on the grounds of security and public order. The EU's 2017 FDI screening regulation<sup>54</sup> not only improved harmonisation of member states' FDI policies,<sup>55</sup> but also handed the European Commission the chance to screen foreign investments likely to affect projects or programmes of interest to the EU.

Transatlantic coordination on investment screening is already taking place at working level. Now, coordination between the EU's FDI screening mechanism and the U.S. CFIUS could lay the foundation for information sharing on investments by private as well as state-backed entities from China and thereby facilitate a comprehensive assessment of the strategic implications of Chinese investments in critical industries across the Atlantic.

### 3.3 Explore transatlantic technology cooperation to better respond to China's rising digital power

The EU should work with the U.S. to strengthen European access to secure and transparent digital infrastructure, both hardware and software. Although both sides share fundamental liberal democratic values that are crucial to maintaining an open global digital ecosystem, a large transatlantic divergence between the EU and the U.S. on matters of digital technologies and their governance overshadows the joint response to China's growing technological power.<sup>56</sup> As Josep Borrell pointed out, the EU and the U.S. "are both liberal democracies and market economies, but that does not mean our interests always coincide".<sup>57</sup> The two have drastically different views on anti-trust, data privacy, as well as digital taxation. As the EU embarks on a course to regain digital competitiveness in a U.S. and Chinese dominated tech area, it has embraced "digital sovereignty" by investing in secure, European-based, resilient and sustainable digital infrastructure and, at the same time, expanding its digital regulatory power.<sup>58</sup>

**"A large transatlantic divergence between the EU and the U.S. on matters of digital technologies and their governance overshadows the joint response to China's growing technological power."**

A key concern regarding China's digital ascent is the critical dependence by the EU and the U.S. on Chinese made equipment ranging from cloud storage to submarine communications cable. In recent years, the discussion on possible technological dependence on China has concentrated on Huawei's participation in 5G infrastructure rollout.<sup>59</sup> To establish a common European approach to security risks related to the installation of 5G networks by non-EU technology providers, the EU

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<sup>54</sup> European Commission, "Proposal for a regulation establishing a framework for screening of foreign direct investments into the European Union", Brussels, 13 September 2017.

<sup>55</sup> European Commission, "Guidance to the Member States concerning foreign direct investment and free movement of capital from third countries, and the protection of Europe's strategic assets, ahead of the application of Regulation(EU) 2019/452 (FDI Screening Regulation)", Brussels, 25 March 2020.

<sup>56</sup> Nicholas Vinocur, "Europe and the US are drifting apart on tech. Joe Biden wouldn't fix that", Politico, 3 November 2020.

<sup>57</sup> Vivienne Walt, "'Trump Has Been a Kind of Awakening.' EU's Top Diplomat Says Europe's Relationship With U.S. Is Forever Changed", Time, 17 November 2020.

<sup>58</sup> Clara Hobbs, "The EU as a digital regulatory superpower: Implications for the United States", European Council on Foreign Relations (ecfr), 8 April 2020.

<sup>59</sup> Tim Rühl et al., "5G and the US-China Tech Rivalry – a Test for Europe's Future in the Digital Age", SWP Comment No. 29, Stiftung Wissenschaft und Politik (SWP), June 2019.

issued a “5G Toolbox”<sup>60</sup> at the beginning of this year. While the EU shouldn’t lose sight of maintaining digital sovereignty, its 5G Toolbox could lay the foundation for closer transatlantic coordination. For instance, the EU could work with the U.S. to closely monitor Huawei and other Chinese suppliers of digital services and infrastructures. Moreover, the EU and U.S. could work together to establish clear and transparent standards for security clearance of software ecosystems, algorithms, and equipment used in critical infrastructures.

The expansion of the EU’s digital sovereignty has to go hand in hand with close transatlantic cooperation to counter China’s digital authoritarianism. President-elect Biden called on “the Free World to come together to compete with China’s efforts to proliferate its model of high-tech authoritarianism”.<sup>61</sup> The EU and U.S. should seek to reconcile bilateral differences on privacy, data protection, and platform regulation and present a set of collective digital standards backed by the two largest economies in the world so as to more effectively shape the global governance towards an open, democratic, and equitable structure. The establishment of a new EU-U.S. Trade and Technology Council (TTC) could be a first step in this direction.<sup>62</sup>

Moreover, the EU and the U.S. should work together to set international technical norms and principles based on openness that present an alternative to the Chinese authoritarian model. This could involve supporting the OECD’s new Global Partnership on Artificial Intelligence (AI),<sup>63</sup> fostering dialogues on multi-stakeholder internet governance that compete with state-centric Sino-Russian initiatives, engaging more actively in multilateral cybersecurity initiatives and efforts to strengthen digital autonomy with regional partners such as Japan, Taiwan, South Korea, and ASEAN.

### **3.4 Foster transatlantic coordination on Chinese disinformation campaigns and cyber threats**

China’s “wolf warrior” diplomacy during the Covid-19 pandemic has accentuated political tensions between the EU and China.<sup>64</sup> The EU did not shy away from calling out China’s disinformation campaign over Covid-19.<sup>65</sup> Consequently, the focus of the East StratCom Task Force of the EEAS has been expanded beyond disinformation campaigns emanating from Russia to include Chinese activities. Consequently, the East StratCom should coordinate its efforts to combat China’s disinformation campaigns with U.S. counterparts such as the U.S. Cyber Command and the Global Engagement Centre.

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<sup>60</sup> European Commission, “Cybersecurity of 5G networks: EU Toolbox of risk mitigation measures”, Brussels, 29 January 2020.

<sup>61</sup> “Candidates Answer CFR’s Questions: Joe Biden”, Council on Foreign Relations (CFR), 1 August 2019.

<sup>62</sup> European Commission and EU High Representative for Foreign Affairs and Security Policy, “A new EU-US agenda for global change”, Brussels, 2 December 2020, p.7.

<sup>63</sup> U.S. Department of State, “Joint Statement From Founding Member of the Global Partnership on Artificial Intelligence”, Washington D.C., 15 June 2020.

<sup>64</sup> Nicole Koenig and Anna Stahl, “How the coronavirus pandemic affects the EU’s geopolitical agenda”, Policy Paper, Jacques Delors Centre, 24 April 2020.

<sup>65</sup> European External Action Service (EEAS), “Special Report Update: Short Assessment of Narratives and Disinformation Around the Covid-19 Pandemic” (Update May – November), 2 December 2020.

China's digital outreach also presents a growing cybersecurity threat to Europe. European governments and companies increasingly suffer from commercial espionage and cyber-crime originating from Chinese institutions.<sup>66</sup> In 2019, the EU adopted a Cybersecurity Act introducing the European cybersecurity certification framework and upgrading the European Union Agency for Network and Information Security (ENISA).<sup>67</sup> Yet, the EU faces fundamental risks due to its dependence on digital hardware and software solutions from China, as well as the deepening integration of European businesses with in Chinese digital ecosystems. Thus, the EU should work in close partnership with the U.S. to enhance its expertise and capacity to deploy new technologies in response to cyber threats from China. The U.S.–EU cyber dialogue should be held biannually with a strengthened institutional capacity and be supported by stronger input from the interdisciplinary research community. The EU should also push for the establishment of common methods and procedures for cyberattack attribution across NATO jurisdictions to allow a coordinated response and to enable lawsuits against perpetrators.<sup>68</sup> As global cyberspace constitutes an entirely different realm of competition irrespective of geographic distance, Brussels needs to step up engagements in multilateral cybersecurity initiatives and cooperate with regional partners such as Japan and Australia to strengthen its cybersecurity capacities.

### 3.5 Consult on risks of raw material supply chains

China's recent threat to cut off rare earth supplies to U.S. weapon maker Lockheed Martin<sup>69</sup> sparked an international backlash and brought added urgency to the EU's work to secure future supplies of critical raw materials for strategic technologies. Following the EU's 2008 Raw Materials Initiative,<sup>70</sup> Brussels adopted an Action Plan<sup>71</sup> this year to push for diversification and ensure a secure supply of critical raw materials. Both the EU and the U.S. rely on China for rare earth minerals, and the EU's recent policy initiative could provide the basis for closer transatlantic consultation. President Trump signed an executive order in October 2020 aimed at boosting U.S. domestic production of rare earth minerals and reducing dependence on China. The Pentagon is gearing up to invest in stockpiling and processing rare earth minerals while seeking additional Congressional funding.<sup>72</sup> The EU and U.S. should thus work together to reduce their reliance on China, cultivate alternative sources of supply and expand processing capacities.

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<sup>66</sup> Kristin Shi-Kupfer and Mareike Ohlberg, "China's Digital Rise: Challenges for Europe", MERICS Papers on China No. 7, Mercator Institute for China Studies (MERICS), April 2019.

<sup>67</sup> European Commission, "EU Cybersecurity Act", Brussels, 26 June 2019.

<sup>68</sup> Maximilian Mayer, "Europe's Digital Autonomy and Potential of a U.S.-German Alignment toward China," American Institute for Contemporary Germany Studies (AICGS), 16 December 2020.

<sup>69</sup> Tim Treadgold, "China's Rare Earth Threat Sparks An International Backlash", Forbes, 7 August 2020.

<sup>70</sup> European Commission, "The raw materials initiative – meeting our critical needs for growth and job in Europe", Brussels, 4 November 2008.

<sup>71</sup> European Commission, "Critical Raw Materials Resilience: Charting a Path towards greater Security and Sustainability", Brussels, 3 September 2020.

<sup>72</sup> Joe Gould and Aaron Mehta, "Trump executive order target rare earths minerals and China", DefenseNews, 1 October 2020.

### 3.6 Jointly monitor China's activities under the BRI and coordinate European and U.S. infrastructure efforts in Asia

Unlike the U.S., Europe is directly impacted by China's BRI by virtue of being an end destination of Chinese BRI projects and investments.<sup>73</sup> As concerns grew that the BRI could run counter to European interests and norms,<sup>74</sup> the EU adopted in 2018 an EU-Asia Connectivity Strategy<sup>75</sup> to foster infrastructure linkages with Asia. The EU offers a "sustainable and rules-based connectivity model" as an alternative normative framework to China's BRI. Its strategy "attaches prime importance to expanding infrastructure on the basis of internationally agreed norms and standards, particularly with regard to the environment, safety in the workplace, labour standards and the rule of law". The focus on infrastructure development in Asia that adheres to high standards of transparency and sustainability is also a key objective of the U.S. Blue Dot Network with Japan and Australia and the 2019 "Free and Open Indo-Pacific" (FOIP)<sup>76</sup> concept. While the IDFC plays a key role in the implementation of American infrastructure initiatives, the European Investment Bank (EIB) also supports social and economic infrastructure in Asia. EU member states like France,<sup>77</sup> Germany<sup>78</sup> and more recently the Netherlands<sup>79</sup> have also formulated national strategies for engaging with the Indo-Pacific region, which address infrastructure development.

The EU's transatlantic agenda proposal stresses that "increased EU focus on the challenges and opportunities in the Indo-Pacific region will help deepen cooperation with like-minded partners in the region. Working closely with the US to align our strategic objectives and support democratic progress in Asia will be essential".<sup>80</sup> Brussels and Washington should thus jointly monitor China's activities in Asia to gain a better understanding of the economic, social, and strategic implications of BRI projects and push for transparency in all infrastructure projects across the region. For instance, the EIB, as well as the EU member states' institutions like the German *Kreditanstalt für Wiederaufbau* (KfW) should coordinate more closely with U.S. counterparts like the IDFC in addressing risks attached to China's infrastructure funding.

### 3.7 Defend democracy and coordinate human rights sanctions against China

China's more aggressive diplomacy and disinformation campaigns during the Covid-19 pandemic have put European democracy at risk. Moreover, this has re-

<sup>73</sup> Erik Brattberg and Etienne Soula, "Europe's Emerging Approach to China's Belt and Road Initiative", Carnegie Endowment for International Peace, 19 October 2018.

<sup>74</sup> Dana Heide et al., "EU ambassadors band together against Silk Road", Handelsblatt, 17 April 2018.

<sup>75</sup> European Commission and EU High Representative for Foreign and Security Policy, "Connecting Europe and Asia – Building blocks for an EU Strategy", Brussels, 19 September 2018.

<sup>76</sup> U.S. Department of State, "A Free and Open Indo-Pacific: Advance a Shared Vision", Washington D.C., 4 November 2019.

<sup>77</sup> French Government, "French Strategy in the Indo-Pacific: For an inclusive Indo-Pacific", Paris, 2018.

<sup>78</sup> German Government, "Policy guidelines for the Indo-Pacific region. Germany -Europe-Asia: shaping the 21st century together", Berlin, 2 September 2020.

<sup>79</sup> Sebastian Strangio, "Following France and Germany, the Netherlands Pivots to the Indo-Pacific", The Diplomat, 18 November 2020.

<sup>80</sup> European Commission and EU High Representative for Foreign Affairs and Security Policy, "A new EU-US agenda for global change", Brussels, 2 December 2020, p.5.



inforced EU–China systemic rivalry in other parts of the world like Africa.<sup>81</sup> The incoming U.S. administration is planning to convene a global summit of democracies to rally like-minded partners.<sup>82</sup> The EU has expressed its intention to work with the U.S. towards a more democratic world and to play its full part in the summit.<sup>83</sup> It has also called for closer transatlantic cooperation on advancing democracy and human rights in Africa.<sup>84</sup>

The EU has been addressing human rights violations in China, through different instruments, such as the EU–China human rights dialogue, as well as sanctions.<sup>85</sup> Announcing the establishment of a new EU sanctions regime inspired by the U.S. Global Magnitsky Act,<sup>86</sup> Commission President Ursula von der Leyen singled out China’s human rights abuses in Hong Kong and Xinjiang.<sup>87</sup> The EU’s revised sanctions regime could present an opportunity for closer transatlantic coordination on human rights abuses by China. In its recent proposal for a transatlantic agenda, the EU explicitly mentions that it “will seek to enhance coordination on the use of sanctions including in the pursuit of shared objectives, while avoiding unintended consequences for European and U.S. economic interests and the unilateral use of extraterritorial sanctions.”<sup>88</sup>

### 3.8 Support a NATO strategic response to China

China’s expanding economic engagement and growing political influence present a stark challenge to NATO members. The recent report of the NATO Reflection Group for 2030 underlines that, unlike Russia, China “is not, at present, a direct military threat to the Euro-Atlantic area”, but the “growing power and assertiveness of China is (...) changing the strategic calculus of the Alliance”. Thus, a key task will be to “provide a position of security and strength to contribute to Allies’ relations with China and guard against any attempts by Beijing to employ coercion against them”.<sup>89</sup> The EU and the U.S. should contribute to enhancing NATO’s capacity to regularly monitor and assess China’s security challenge to the strategic interest of NATO members. The pair should support efforts to establish a NATO-China Council to address the challenges posed by China in a coordinated and comprehensive manner.<sup>90</sup> At the same time, this forum could be used to identify and foster opportunities for constructive collaboration with China.<sup>91</sup>

<sup>81</sup> Vince Chadwick, “‘The politics of generosity’: Brussels aims to counter Chinese narrative on coronavirus”, Devex, 7 April 2020.

<sup>82</sup> Frederick Kempe, “Biden has a plan to rally the world’s democracies and tackle threats together”, CNBC, 13 September 2020.

<sup>83</sup> European Commission and EU High Representative for Foreign Affairs and Security Policy, “A new EU-US agenda for global change”, Brussels, 2 December 2020, p.8.

<sup>84</sup> Ibid.

<sup>85</sup> “EU restricts exports to Hong Kong over China security law”, Deutsche Welle, 28 July, 2020.

<sup>86</sup> Josep Borrell, “The long and complex road towards an EU Global Human Rights Sanctions Regime”, EEAS blog post, 31 October 2020; Alexandra Brzozowski, “EU ministers break ground on European ‘Magnitsky Act’”, Euractiv, 10 December 2019

<sup>87</sup> European Commission, “State of the Union Address by President von der Leyen at the European Parliament Plenary”, Brussels, 16 September 2020.

<sup>88</sup> European Commission and EU High Representative for Foreign Affairs and Security Policy, “A new EU-US agenda for global change”, Brussels, 2 December 2020, p.10.

<sup>89</sup> “NATO 2030: United for a New Era”, Analysis and Recommendations of the Reflection Group Appointed by the NATO Secretary General, 25 November 2020, p.27.

<sup>90</sup> Barry Pavel and Ian Brzezinski, “It’s Time for a NATO-China Council”, Defense One, 21 August 2019.

<sup>91</sup> Ian Brzezinski, “NATO’s role in a transatlantic strategy on China”, Atlantic Council, 1 June 2020.

### 3.9 Promote transatlantic think tank dialogues on China

Through a dialogue on China, the EU and the U.S. could rebuild trust in the transatlantic partnership and lay the ground for sound policy cooperation. For a start, the EU should promote dialogues on China between think tanks on both sides of the Atlantic. Over the past years, Europe has considerably strengthened its own China expertise.<sup>92</sup> Yet, the work of European and U.S. think tanks on China differs significantly. U.S. think tanks overemphasise the competitive aspect of bilateral relations with China and discussions are often centred around strategic deterrence in terms of national security. European policy discussions, meanwhile, lack a clear focus on security issues but have produced good proposals for a balanced approach towards China and are more in tune with understanding the country in order to better engage China. These differences are grounded in differing mindsets and capacities in Europe and the U.S. By deepening transatlantic think tank exchanges, both sides can benefit from the other's strengths and particular expertise.

### 3.10 Mutually reinforce European strategic sovereignty and transatlantic cooperation

In recent years, the EU has made attempts to position itself as a geopolitical actor on the international stage and to strengthen its “strategic sovereignty”, which has been further encouraged by the outbreak of the Covid-19 pandemic. This led to a growing consensus among member states that the EU needs to reduce its economic and security reliance on other international players.<sup>93</sup> Moreover, it has broadened the understanding of sovereignty to include not only reliance on the U.S. but also other actors, notably China.

Following the U.S. presidential election, a debate emerged on the compatibility of the EU's effort to ensure strategic sovereignty with its ambitions for a renewed transatlantic partnership. The EU has responded by stressing that “a united, capable and self-reliant EU” is “good for Europe” and “good for the transatlantic partnership”.<sup>94</sup> Josep Borrell has been even more explicit, stating that “I believe that European strategic autonomy is fully compatible with a stronger transatlantic bond and even a precondition for it”.<sup>95</sup>

The establishment of a transatlantic dialogue on China could serve as a test-case to show that European strategic sovereignty and a new transatlantic partnership can be mutually reinforcing. For this to happen, the EU needs to set its own agenda for transatlantic cooperation on China, while continuing to work with China. At the same time, the EU and the U.S. should avoid casting China as the main catalyst of renewed transatlantic synergy.

**“The establishment of a transatlantic dialogue on China could serve as a test-case to show that European strategic sovereignty and a new transatlantic partnership can be mutually reinforcing.”**

<sup>92</sup> For example, the European Think-tank Network on China (ETNC).

<sup>93</sup> Mark Leonard and Jeremy Shapiro, *Sovereign Europe, dangerous world: Five agendas to protect Europe's capacity to act*, Policy Brief, European Council on Foreign Relations (ecfr), 1 December 2020.

<sup>94</sup> European Commission and EU High Representative for Foreign Affairs and Security Policy, *A new EU-US agenda for global change*, Brussels, 2 December 2020, p.1.

<sup>95</sup> Josep Borrell, *Why European strategic autonomy matters*, EEAS blog post, 3 December 2020.

**Box 3: A 10-point agenda for an EU–U.S. dialogue on China**

1. Revive transatlantic coordination on trade issues with China
2. Expand cooperation on investment screening of Chinese FDI
3. Explore transatlantic technology cooperation to better respond to China’s rising digital power
4. Foster transatlantic coordination on Chinese disinformation campaigns and cyber threats
5. Consult on risks to raw material supply chains
6. Jointly monitor China’s activities under the BRI and coordinate European and U.S. infrastructure efforts in Asia
7. Defend democracy and coordinate human rights sanctions against China
8. Support a NATO strategic response to China
9. Promote transatlantic think tank dialogues on China
10. Mutually reinforce European strategic sovereignty and transatlantic cooperation

## 4. New formats for cooperation with China

In the EU’s recent transatlantic agenda, Brussels reminds Washington that it considers China not only an economic competitor and systemic rival, but also a negotiating partner for cooperation.<sup>96</sup> Moreover, the document underlines that the EU and the U.S. do “not always agree on the best way to address” the challenges presented by the rise of China. Unlike the U.S., the EU continues to cooperate with China in a number of areas. By referring to the so-called “Sinatra Doctrine”,<sup>97</sup> the EU’s foreign policy chief Josep Borrell has repeatedly emphasised, that the EU follows its own path and acts in accordance with its own values and interests in addressing the China challenge.<sup>98</sup> This has been echoed by other European leaders. In her congratulatory message to President-elect Biden Commission President von der Leyen called for a new transatlantic agenda and stressed that “there are many compelling reasons for the two largest poles of free market activity in the world to work together”. At the same time, she underlined that the EU will continue working on all of its partnerships and that “EU–China relations are of real strategic importance to both sides and to the world”.<sup>99</sup>

Thus, alongside shaping the nascent transatlantic dialogue on China, the EU should explore new formats for practical cooperation and continue its multilateral engagement with China. This will help the EU to position itself as a geopolitical actor with clearly defined strategic interests and not merely be drawn into the big power competition between the U.S. and China.

<sup>96</sup> European Commission and EU High Representative for Foreign Affairs and Security Policy, “A new EU-US agenda for global change”, Brussels, 2 December 2020, p.8.

<sup>97</sup> Josep Borrell, “The Sinatra Doctrine. How the EU Should Deal with the US-China Competition”, IAI Paper 20, Istituto Affari Internazionali (IAI), 24 September 2020.

<sup>98</sup> Josep Borrell, “China, the United State and us”, EEAS blog post, 31 July 2020.

<sup>99</sup> European Commission, “Speech by President von der Leyen at the EU Ambassadors’ Conference 2020”, Brussels, 10 November 2020.

#### 4.1. Initiate a trilateral EU-China-U.S. dialogue

To effectively engage both Washington and Beijing, the EU should explore the format of a trilateral EU–China–U.S. dialogue. Despite the growing rivalry, American and Chinese policymakers have recognised the need to avoid dangerous Cold-War-style escalations. The Biden administration could adopt an approach to competition with China that is more strategic and reasoned. We could see a shift towards managed coexistence. As Jake Sullivan and Kurt Campbell argue, “coexistence means accepting competition as a condition to be managed rather than a problem to be solved” and “would involve elements of competition and cooperation”.<sup>100</sup> This could provide an opportunity for exploring new formats of cooperation with China. Two main reasons necessitate trilateral cooperation. First, the EU and U.S. face challenges that cannot be solved without China. Second, Beijing offers specific expertise in certain areas that could be advantageous for the EU and the U.S. The EU should play a constructive role in bringing about tangible cooperation between Washington and Beijing on these issues. The following policy recommendations could serve as a starting point for new trilateral cooperation formats.

- **Foster trilateral coordination on the Covid-19 pandemic:** President-elect Biden’s propensity towards international collaboration on the ongoing global pandemic presents a unique opportunity to engage China, whose participation is essential to end the pandemic. The EU should facilitate efforts to conduct a joint investigation of the pandemic’s origin with both American and Chinese participation that would help to end the vicious mutual accusation between Washington and Beijing. The EU should also encourage trilateral exchanges with China and the U.S. on developing lasting and cost-effective COVID-19 diagnostics and treatments as well as boosting the manufacturing of vaccines and their global distribution, especially in developing countries.
- **Foster trilateral coordination on the Covid-19 economic crisis and support G20 efforts to promote post-pandemic recovery,** especially for developing countries: As the largest economies in the world, the U.S., China and the EU are crucial in supporting the global recovery.
- **Initiate a trilateral technology dialogue:** As highlighted by the recent expansion of the BRI into a “digital Silk Road”,<sup>101</sup> China is a leading technological power and a complete digital decoupling from China will be impossible to achieve. The EU acknowledged this by hosting its first high-level digital dialogue with China in September.<sup>102</sup> As the U.S. and Chinese digital ecosystems will have to interact with each other and share a basic level of compatibility, the EU should foster a trilateral technology exchange with China and the U.S., which focuses on governance issues, rather than the national origins of component technologies.
- **Initiate a trilateral development dialogue:** China has a proven track record in poverty reduction. Given China’s particular experience, both the EU and U.S. have

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<sup>100</sup> Kurt Campbell and Jake Sullivan, “*Competition Without Catastrophe: How America Can Both Challenge and Coexist with China*”, *Foreign Affairs*, September/October 2019.

<sup>101</sup> Thomas S. Eder et al., “*Networking the ‘Belt and Road’– The future is digital*”, *BRI Tracker*, Mercator Institute for China Studies (MERICS), 28 August 2019.

<sup>102</sup> European Commission, “*EU-China: Commission and China hold first High-level Digital Dialogue*”, Brussels, 10 September 2020.

engaged in trilateral development initiatives with China.<sup>103</sup> To offer better support to developing countries in Africa and Asia, the EU, U.S. and China should join forces. A starting point could be regular consultations between the European Investment Bank (EIB), the China Development Bank (CDB), the China Exim Bank, and the U.S. International Development Finance Corporation (IDFC), as well as between the European Commission's directorate for international cooperation and development (DEVCO), the U.S. Agency for International Development (USAID) and the China International Development Cooperation Agency (CIDCA).

## 4.2 Revive multilateral cooperation

As outlined in the European Security Strategy and the EU's Global Strategy,<sup>104</sup> effective multilateralism and the protection of an international rules-based order are fundamental EU goals. European leaders hope that Biden's election will mark a return to U.S. support for multilateral cooperation. The EU's engagements with China and U.S. need to make sure that the work of multilateral organisations are effective and much needed reforms take place. This trilateral cooperation should prioritise action on climate change and reforms for the WHO and WTO.

- **Support the WHO and strengthen its pandemic preparedness:** The EU has shown leadership in global health amid the ongoing pandemic.<sup>105</sup> President-elect Biden announced that he will reverse Trump's decision to leave the WHO.<sup>106</sup> Thus, the EU has invited the U.S. to join UN-backed global COVID-19 vaccine facility COVAX,<sup>107</sup> which is also supported by China. The EU should also collaborate with other WHO members in pushing for necessary reforms that will restore public confidence in the organisation and improve its vital capacity to coordinate the global pandemic response.
- **Revive multilateral cooperation on climate change:** Both the EU and China are committed to the Paris Agreement. The EU has welcomed President-elect Biden's commitment to re-join it,<sup>108</sup> as well as the nomination of John Kerry as U.S. Special Envoy for Climate. Recently, Chinese President Xi Jinping announced at the UN his ambition to make China climate-neutral by 2060.<sup>109</sup> As this could create an unprecedented opportunity for initiating a global climate action,<sup>110</sup> the EU should engage with all parties in view of the 26th UN Climate Change Conference

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<sup>103</sup> Anna Stahl, *EU-China-Africa Trilateral Relations in a Multipolar World*, Palgrave Macmillan: London, 2018; Denghua Zhang, "U.S.–China Trilateral Aid Cooperation: Features, Prospects and Recommendations", Analysis No. 139, East-West Center, August 2019.

<sup>104</sup> European External Action Service (EEAS), *Shared Vision, Common Action: A Stronger Europe. A Global Strategy for the EU's Foreign and Security Policy*, Brussels, June 2016.

<sup>105</sup> Anna Stahl, *Geopolitics in the time of the coronavirus. The EU's leadership in global health*, Policy Position, Jacques Delors Centre, 9 June 2020.

<sup>106</sup> Julia Belluz, *Trump abandoned the WHO. Biden will rejoin the agency on day one in office*, Vox, 9 November 2020.

<sup>107</sup> European Commission and EU High Representative for Foreign Affairs and Security Policy, *A new EU–US agenda for global change*, Brussels, 2 December 2020, p.2.

<sup>108</sup> William Mauldin, *Where Trump and Biden Stand on International Accords and Alliances*, The Wall Street Journal, 19 October 2020.

<sup>109</sup> Matt McGrath, *Climate change: China aims for 'carbon neutrality by 2060'*, BBC News, 22 September 2020.

<sup>110</sup> Thomas Pellerin-Carlin and Edward Knudsen, *Making Transatlantic Relations Green: A Common Agenda for Climate Action*, Policy Brief, Jacques Delors Institute, December 2020.

next year. In particular, the EU should push for the enforcement of the multilateral obligations toward a result-oriented model that allows for independent and transparent monitoring. Brussels should also advance its work on a European carbon border adjustment mechanism and engage in a dialogue with the Biden administration that is also considering such a mechanism<sup>111</sup> as a blueprint for curbing greenhouse gas emissions through carbon pricing.

- **Support the WTO and its reform:** The EU has supported the WTO in efforts to maintain a rules-based international trading system. Although both the EU and the U.S. have supported China's WTO membership, the U.S. in recent years has undermined the body's effectiveness by paralysing its Appellate Body (AB). Thus, the EU should persuade the new U.S. administration to work with other WTO members and revive the AB. At the same time, the EU needs to act as a crucial interlocutor between China and the U.S. in pushing through reforms that address U.S. concerns regarding developing country status designation, reporting requirements on subsidies, and technology transfers. Brussels should advocate an expansion of the EU-Japan-U.S. trilateral forum on industrial subsidies and technology transfers and propose practical options to move this discussion to a broader WTO negotiating framework.
- **Strengthen multilateral cooperation in Asia:** The EU should not make the mistake of a Sinocentric approach to Asia. Instead, it should foster multilateral cooperation with different states in the region. Based on the Asia–Europe Meeting (ASEM), the 2019 Connectivity Strategy with Asia and in line with the Indo-Pacific strategies of individual member states, the EU should support multilateral cooperation in Asia. The “EU–Japan Partnership on Sustainable Connectivity and Quality Infrastructure”<sup>112</sup> could serve as a starting point for this endeavour. In 2015, Tokyo launched a so-called “partnership for quality infrastructure”,<sup>113</sup> which now also involves a multilateral effort to promote quality infrastructure in the G7 and G20. In this context, Japan has signed infrastructure partnerships with the U.S., Australia and India.<sup>114</sup> The EU's multilateral engagement with regional partners in Asia should align with its strategic goals in the Indo-Pacific and draw on existing forums, such as the Blue Dot Network. Brussels' efforts should also be coordinated with those of the U.S., as transatlantic partners seek to build up leverage and expand coalitions for safeguarding shared interests vis-à-vis China.

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<sup>111</sup> Martin Levy, “President-Elect Biden Supports a ‘Carbon Enforcement Mechanism’ — Could that Mean a Price on Carbon?” Environmental & Energy Law Program, Harvard University, 14 November 2020.

<sup>112</sup> Maaïke Okano-Heijmans, “Empowering the EU-Japan Connectivity Partnership”, Op-Ed, Clingendael, 4 November 2019.

<sup>113</sup> Ministry of Foreign Affairs of Japan, “Partnership for Quality Infrastructure: Investment for Asia's Future”, Tokyo, 21 May 2015.

<sup>114</sup> Jagannath Panda, “Shinzo Abe's infrastructure diplomacy”, Asia Times, 31 July 2020.

**Box 4: New formats for trilateral and multilateral cooperation with China**

**Essential EU-U.S.-China trilateral cooperation:**

- Trilateral coordination on the Covid-19 pandemic
- Trilateral coordination on the Covid-19 economic crisis and support for G20 efforts for post-pandemic economic recovery
- Trilateral technology dialogue
- Trilateral development dialogue
- Trilateral think tank and 1.5 dialogues

**Multilateral cooperation:**

- Support the WHO and strengthen its pandemic preparedness
- Revive multilateral cooperation on climate change
- Support the WTO and its reform
- Strengthen multilateral cooperation in Asia

## Conclusion

U.S. policy towards China has undergone a significant shift in the past few years. As Washington's strategic attention has steadily pivoted from Europe and the Middle East to the Asia-Pacific region, Sino-U.S. relations have deteriorated into systemic rivalry. The recent U.S. election will not alter this trend. President-elect Biden's China policy will likely differ from his predecessor in style rather than substance and could be described as an iron fist in a velvet glove. Still, the incoming American President has advocated a strong transatlantic partnership with the EU to address the challenge posed by China. Thus, his inauguration could give rise to a new type of transatlantic alliance that could benefit the EU's geopolitical ambitions. The EU has signalled its willingness to engage in a transatlantic dialogue on China. Now, it needs to set out the agenda for this emerging dialogue. At the same time, the EU needs to avoid defining its China policy by referencing U.S.-China superpower rivalry and continue to pursue practical cooperation with Beijing to advance its own interests.

**“President-elect Biden’s China policy will likely differ from his predecessor in style rather than substance.”**

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