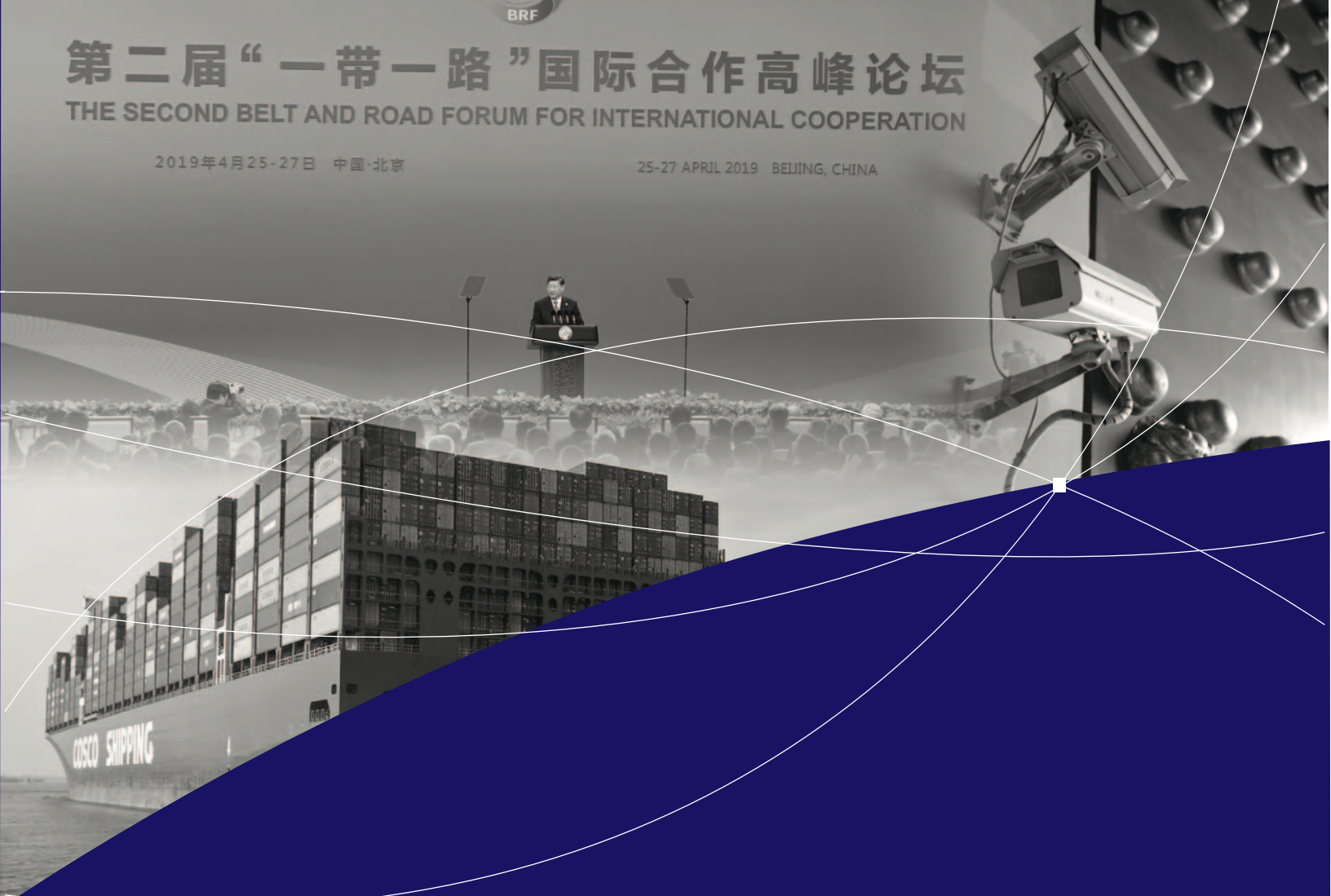


第二届“一带一路”国际合作高峰论坛

THE SECOND BELT AND ROAD FORUM FOR INTERNATIONAL COOPERATION

2019年4月25-27日 中国·北京

25-27 APRIL 2019 BEIJING, CHINA



71

AICGSPOLICYREPORT

REVAMPING CHINA POLICY FOR THE
TRANSATLANTIC ALLIANCE: MAJOR
ISSUES FOR THE UNITED STATES
AND GERMANY

Yixiang Xu



**American Institute for
Contemporary German Studies**
JOHNS HOPKINS UNIVERSITY

The American Institute for Contemporary German Studies (AICGS) in Washington, DC, is the only think tank focused exclusively on the most pressing issues at stake for Germany and the United States. Affiliated with Johns Hopkins University (JHU), the Institute possesses in-depth policy and academic expertise and an extensive network on both sides of the Atlantic. AICGS collaborates with policymakers, corporate leaders, and scholars to deliver in-depth, actionable analysis and fresh ideas that help anticipate trends, manage risk, and shape policy choices.

©2021 by the American Institute for
Contemporary German Studies

ISBN 978-1-933942-67-4

The views expressed in this publication are those of the author(s) alone. They do not necessarily reflect the views of the American Institute for Contemporary German Studies.

Table of Contents

Foreword	3
About the Author	6
China Policy in Transition: Major Issues for the United States and Germany and Prospects for Transatlantic Cooperation	9
Assembling a Transatlantic Agenda for Economic and Strategic Cooperation with China	19
Dealing with China in the Digital World: Toward a Transatlantic Alliance	29
Appendix	38

Support for this publication was generously provided by the Fritz Thyssen Foundation.

FOREWORD

How to deal effectively with China's growing influence and global ambition is the top policy challenge for the United States, Germany, and the EU. China is no longer just an economic partner but has rapidly become an economic and strategic competitor. The COVID-19 pandemic puts this enormous challenge into clear perspective. Global supply chains for key manufactured goods depend on China, and developed countries rely on their relationships with China for economic growth. Sensing that dependence, China increasingly is flexing its diplomatic muscles and leveraging its economic weight to suppress criticism at home and abroad while spreading its own model of state capitalism, mass surveillance, and authoritarianism. For the United States and its European allies, both their national interests and shared democratic values are at stake in the increasingly intense competition with China.

Unilateral actions alone cannot adequately address these challenges. At best, they are insufficient for constraining Beijing's behavior or pushing structural reforms in China. At worst, they could sow divisions between the United States and Germany if each side pursues a nationally driven agenda vis-à-vis China and in the process undermines trust between the transatlantic partners. The deficiencies of the U.S.-China Phase One Trade Agreement, negotiated by former U.S. President Trump, and the EU-China Comprehensive Agreement on Investment, advocated by German Chancellor Angela Merkel, are important reminders that transatlantic cooperation is not only beneficial but also necessary.

The Biden administration has returned the transatlantic relationship to a collegial footing, and a series of official visits and top-level summits have already produced plans for the United States, Germany, and the EU to pool resources and align policy approaches to bolster their economic and technological competitiveness, enhance their security capabilities, and promote democratic values and the rules-based international order. These encouraging developments will depend on how serious the commitment is to a full-spectrum, strategic approach to dealing with China. For Germany, that means creating a new industrial strategy to diversify away from its economic dependence on China and playing a strengthened role in brokering EU consensus on issues such as cybersecurity and human rights. As the Merkel era draws to a close, Germany's mainstream political parties, industrial associations, and civil society are increasingly demanding a heavier emphasis on competing with and, when necessary, confronting China. There are encouraging signs as Berlin has undertaken steps to address its asymmetric economic relationship with China. Under the next German government, a more profound change in policy toward Beijing, away from the decades-long trade-driven emphasis on "Wandel durch Handel," could drive the formation of more cohesive EU positions and bolster the values-based transatlantic China agenda.

Over one year, the American Institute for Contemporary German Studies convened three high-level American-German workshops on some of the most challenging issues in Washington and Berlin's foreign and security policy toward China. These conversations addressed building resilient digital infrastructure and strengthening digital security, updating and expanding policy instruments for geoeconomic competition, and assessing the Biden administration's China policy and prospects for greater transatlantic cooperation. A plethora of bilateral and plurilateral initiatives between the United States, Germany, the EU, and their allies and partners in the past months has built new momentum for collective policy responses that challenge Beijing's economic, technological, and security ambitions and at the same time provide global public goods and promote democratic, rules-based international governance.

AICGS is pleased to present the written report of the workshop discussions for the year-long project “Building Transatlantic Cooperation on China: Key Issues for the United States and Germany in 2020-21 Transitions.” We are honored to have received valuable inputs from our workshop speakers and discussion paper authors, who are highly experienced scholars and practitioners in the China policy field. We are also grateful for the participation of policy experts, government officials, parliamentarians, and industry representatives from the United States, Germany, and the EU. Their combined expertise and insights have greatly enriched these discussions. Our special appreciation goes to the Fritz Thyssen Foundation for generously supporting our endeavor to deepen understanding and strengthen transatlantic cooperation on China. It is our hope that the results of this project will spur further conversations among longstanding partners and allies committed to defending their shared interests and common values.

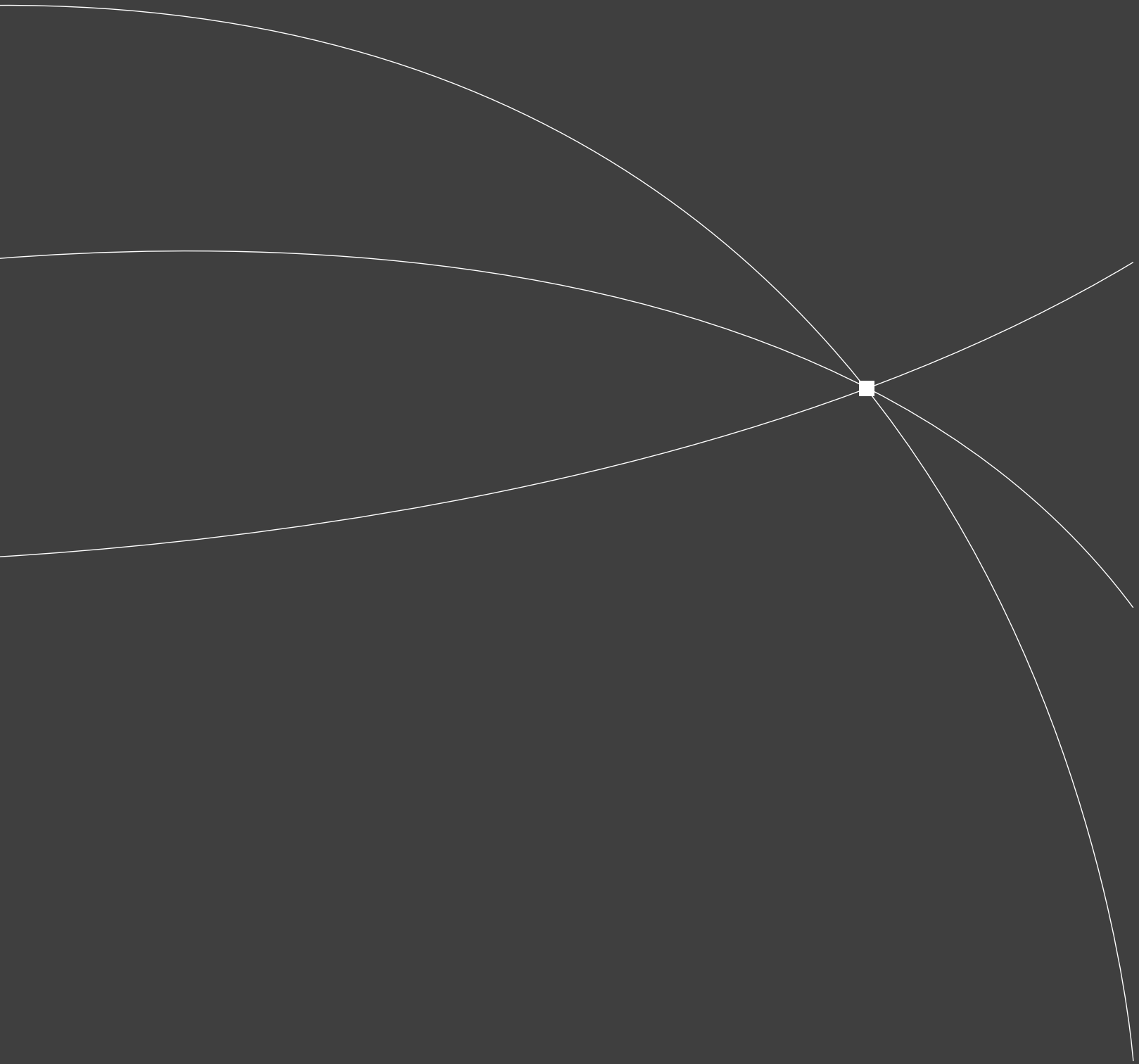


Jeffrey Rathke
President, AICGS

ABOUT THE AUTHOR

Yixiang Xu is the China Fellow and Program Officer, Geoeconomics at AICGS, leading the Institute's work on U.S. and German relations with China. He has written extensively on Sino-EU and Sino-German relations, transatlantic cooperation on China policy, Sino-U.S. great power competition, China's Belt and Road Initiative and its implications for Germany and the United States, Chinese engagement in Central and Eastern Europe, foreign investment screening, EU and U.S. strategies for global infrastructure investment, 5G supply chain and infrastructure security, and the future of artificial intelligence. His written contributions have been published by institutes including the Chinese Academy of Social Sciences, the United States Institute of Peace, and the Asia Society's Center for U.S.-China Relations. He has spoken on China's role in transatlantic relations at various seminars and international conferences in China, Germany, and the United States.

Mr. Xu received his MA in International Political Economy from the Josef Korbel School of International Studies at the University of Denver and his BA in Linguistics and Classics from the University of Pittsburgh. He is an alumnus of the Bucerius Summer School on Global Governance, the Global Bridges European-American Young Leaders Conference, and the Brussels Forum's Young Professionals Summit. Mr. Xu also studied in China, Germany, Israel, Italy, and the UK and speaks Mandarin Chinese, German, and Russian.



CHINA POLICY IN TRANSITION: MAJOR ISSUES FOR THE UNITED STATES AND GERMANY AND PROSPECTS FOR TRANSATLANTIC COOPERATION

China Seeks Great Power Status

China's increasingly assertive foreign policy, backed up by powerful rhetoric from top government officials and visions of Chinese Communist Party (CCP) leaders, seeks to reshape the international order to better serve Chinese interests and expand Beijing's political influence. In his political report at the 19th CCP Party Congress in 2017, Chinese President and CCP Party General Secretary Xi Jinping promised to achieve the "great rejuvenation of the Chinese nation" and restore China to its rightful great power status¹ with a full spectrum of economic, technological, and military capability. Xi doubled down on his vision at the CCP's centenary on July 1, 2021, claiming "China's national rejuvenation has become a historic inevitability."²

Beijing is seeking global leadership in technologies. Its China Standard 2035 plan serves as a blueprint for China's government bodies and technology champions to set the global standards for emerging technologies such as 5G and artificial intelligence.³ Together with the Made in China 2025 plan, a key industrial policy for upgrading China's manufacturing with cutting-edge technologies, it is designed to transform China into a global leader in technology innovation and production. That process is accelerated by the U.S. government's move to constrain access to and transfer of advanced technologies to China using a combination of foreign direct investment screening and export control measures and has prompted calls for technological self-reliance in China.⁴

China's technology ambitions are accompanied by

its drive toward military modernization. The CCP and the Chinese government set a string of goals: achieving the People's Liberation Army's (PLA) centennial military building target by 2027, completing national defense and military modernization by 2035, and possessing a world-class military by mid-century.⁵ China has been expanding its nuclear infrastructure with the construction of new silos that could be used for launching nuclear missiles.⁶ Beijing is also modernizing its navy with a wide array of ship, aircraft, and weapon acquisition programs,⁷ including a growing number of aircraft carriers⁸ and a fleet of new amphibious vessels.⁹ Current PLA operational concepts emphasize attaining information dominance within the cyber, space, and electromagnetic domains¹⁰ aimed at expanding Chinese defensive and offensive capabilities and potentially benefiting from China's Military-Civil Fusion strategy.¹¹

Another focus of China's great power aspiration is the transformation of the Chinese economy from a complementary partner to advanced Western economies in global value chains to a direct competitor. A growing group of Chinese industrial and technology champions has emerged in the past years and is now seeking to expand its market share. Internet and communication technology companies such as Huawei and Alibaba and construction companies, notably the China State Construction Engineering Corporation (CSCEC) and the China Railway Construction Corporation Limited (CRCC), have significantly expanded their operations abroad, especially in developing countries from Southeast Asia to Africa. These ventures are supported at the political level by Xi's Belt and Road Initiative (BRI) that aims to extend Chinese economic and political influence through large infra-

structure investments.

At the same time, the Chinese government is increasingly exercising economic coercion as a key foreign policy instrument to both incentivize political cooperation with China and punish countries for pursuing policies deemed harmful to Chinese interests.¹² For example, Beijing moved to heavily restrict Australian imports after Canberra supported a call for a global inquiry into China's early handling of the COVID-19 outbreak, impacting an estimated 1.3 percent of Australia's gross domestic product.¹³ China also adopted punitive economic measures against South Korea for deploying the U.S. Terminal High Altitude Area Defense (THAAD) missile defense system¹⁴ and against Canada for its arrest of Huawei CFO Meng Wanzhou.¹⁵

China is also expanding its influence within international organizations. Beijing has been pushing its civil servants and those of its clients and partners to the helm of United Nations institutions that set global standards. Chinese citizens now head four of the fifteen UN specialized agencies, the most of any country.¹⁶ On several occasions, China has employed a mixture of persuasion and pressure to stifle scrutiny of its behavior at home and abroad. This includes pushing a rival statement at the United Nations Human Rights Council in 2020 against a UK-sponsored version criticizing curtailed political freedoms in Hong Kong. The Chinese statement ultimately garnered more support.¹⁷

At the regional level, Beijing continues to build up alternative international forums and forge plurilateral agreements that help to further China's economic and political interests with mixed results. On the one hand, China led the push to conclude the Regional Comprehensive Economic Partnership (RCEP) between fifteen Asia-Pacific nations, including U.S. treaty allies Japan, South Korea, Australia, and the Philippines, furthering its image as the dominant economic power in the Indo-Pacific region.¹⁸ China's efforts at politico-economic coalition-building are not limited to the Asia-Pacific region, and its results in Europe have been mixed. The almost decade-old Cooperation between China and Central and Eastern European

Countries (China-CEEC/16+1/17+1) is often criticized by the EU and some of its member states for failing to deliver promised economic benefits and undermining EU cohesion on its China policy,¹⁹ two points that were mentioned in Lithuania's recent decision to withdraw from the initiative.

In pursuing great power status, China is increasingly seeking to propagate a narrative that the West is in irreversible decline.²⁰ Its new generation of "Wolf Warrior" diplomats aggressively hit out at foreign criticism toward China and spread conspiracy theories seeking to discredit or implicate adversaries.²¹ Chinese diplomats and propagandists vehemently denounce reports of mass incarceration and forced labor of ethnic Uyghurs in Xinjiang as "lies and disinformation," and China's Ministry of Foreign Affairs spokesperson Zhao Lijian openly promoted a baseless theory that pins blame for the origin of the coronavirus on the United States.²²

As Beijing digs in for a competition with the United States and its democratic allies to shape the world order, it is forging closer ties with nondemocratic regional powers. China and Russia upgraded their relations to a comprehensive strategic partnership in 2019.²³ Together with an increase in combined exercises and joint air patrols, large-scale Russian-Chinese arms transfers have resumed, helping to advance Chinese military expansion in the western Pacific.²⁴ China also recently signed a bilateral deal with Iran, promising to invest \$400 billion in the Iranian economy and calling for deepening military cooperation, including joint training and exercises, joint research and weapons development, and intelligence-sharing.²⁵

U.S. China Policy in The Biden Era

The Sino-U.S. strategic rivalry has moved to the center of Americans' perception of the United States' role in a rapidly changing global order. It also solidified the shift of U.S. policy toward China from one of engagement to competition. In President Joe Biden's words, "China has an overall goal...to become the leading country in the world, the wealthiest country in the world, and the most powerful country in the world...That's not going to

happen on my watch.”²⁶ As Senate Minority Leader Mitch McConnell (R-KY) put it: “If any issue is ripe for regular-order bipartisan process, it is this one.”²⁷ Thus, China’s growing geopolitical ambitions present not only a complex challenge to the United States but also a unique opportunity for bipartisanship. A broad bipartisan consensus now stresses the need for competition with China on a wide spectrum of economic, technological, and security issues. Congress is actively pursuing legislation that would expand U.S. capabilities in these areas, with members of the House and the Senate having already submitted more than 250 bills since the beginning of 2021.²⁸

In this context, the Biden administration has sought to bring a more strategic and disciplined approach to managing relations with China after four years of tumultuous U.S. foreign policy under his predecessor. While multiple aspects of the government’s China policy are still under review, President Biden’s China policy is so far characterized by enhancing American competitiveness and coordination with U.S. allies and like-minded partners. Managing the economic consequences of the Sino-U.S. rivalry is one of the biggest challenges for the Biden administration as it faces the difficult task of balancing America’s deeply rooted economic interests and the administration’s goal to stay ahead of the competition in crucial and emerging industries.

On trade relations, the U.S. government is sustaining its pushback against China’s state-driven economic model and its anti-competitive trade measures. Biden has not rolled back the punitive tariffs on most Chinese goods imposed by the Trump administration²⁹ and has left in place the U.S.-China Phase One Agreement, signaling the continuation of the use of tariffs as leverage to demand structural changes from Beijing. In addition, U.S. Trade Representative Katherine Tai called for new tools to address China’s subsidies and state-driven economic system, including an update to Section 232 of the Trade Expansion Act of 1962.³⁰

Similarly, Washington is stepping up efforts to restrict China’s access to critical U.S. technologies, guided by national security and foreign policy

needs. In April, the U.S. Department of Commerce placed seven firms and government labs involved in Beijing’s initiative to build or use supercomputers on its Entity List,³¹ adding to a growing number of Chinese entities, mainly companies and research institutions working in the field of 5G, AI, and military technologies, that are subject to U.S. export controls. The Biden administration also added Chinese companies to the blacklist over human rights abuses and high-tech surveillance in Xinjiang.³²

Deepening geo-technological competition with China, together with supply shortages as a result of the COVID-19 pandemic and allegations of forced labor in China, is also driving the U.S. government to assess vulnerabilities and seek improvements to its supply chains, especially for industrial products critical to U.S. national security. In June, the White House released its 100-Day Supply Chain Review Report³³ on semiconductor manufacturing, high-capacity batteries, rare earth elements, and pharmaceuticals, with recommendations to diversify away from Chinese imports and increase U.S. government investment to incentivize domestic manufacturing and research and development (R&D).³⁴ In the same month, the Senate passed the U.S. Innovation and Competition Act,³⁵ committing roughly \$250 billion in funding for scientific research and subsidies for critical industries such as semiconductor fabrication and robotics.

Government support for domestic manufacturing and scientific research, a large infrastructure investment, and the American Jobs Plan form the main components of Biden’s economic agenda which aims to create more resilient infrastructures and supply chains and strengthen U.S. industrial competitiveness to “out-compete China.”³⁶ In doing so, Washington is moving away from the neoliberal orthodoxy and remaking the globalization of the past decades that was underpinned by the liberalization of international trade.

China’s expanding strategic footprint presents another key test for the United States. The BRI challenges U.S. influence and undermines transparent and prudent economic management from the Pacific to the Atlantic. And Beijing’s aggressive

territorial claims in the South China Sea and its threat to reunite Taiwan by force pose significant risks to maritime security in the Indo-Pacific. To counter China's growing clout, the Biden administration moved quickly to reach out to close allies, especially U.S. partners in Europe,³⁷ to coordinate responses to common challenges posed by China.

After announcing, "America is back, the transatlantic alliance is back," at the 2021 Munich Security Conference,³⁸ President Biden announced a number of coordinated initiatives at a series of summits with U.S. allies and partners on his first overseas trip as president.³⁹ The G7 Summit in Cornwall adopted the U.S.-led Build Back Better World initiative (B3W) as an alternative to China's BRI, committing to address infrastructure needs of developing countries through "a values-driven, high-standard, and transparent infrastructure partnership led by major democracies."⁴⁰ The NATO summit's communique took a tougher stance, warning, "China's stated ambitions and assertive behavior present systemic challenge to the rules-based international order and to areas relevant to alliance security."⁴¹ The newly-established EU-U.S. Trade and Technology Council will also address the Chinese government's plans to dominate technology innovation and Beijing's efforts to advance its preferred vision of internet governance.⁴²

The United States, along with the EU, the UK, and Canada, imposed sanctions on officials in China over human rights abuses against ethnic Uyghurs in Xinjiang,⁴³ increasing international pressure on China. The United States, the EU, NATO, Australia, New Zealand, and Japan jointly accused the Chinese government of a broad array of malicious cyber activities, including a sophisticated attack on Microsoft's Exchange server software in early 2021.⁴⁴ The name-and-shame exercise is a step forward in collective cyberattack attribution and raises the prospect of stronger coordination between democratic allies to hold Beijing accountable for malicious cyber activities.

As U.S. strategic attention shifts to the Indo-Pacific, the Biden administration is strengthening alliances to counter Beijing's aggressive territorial claims and

accelerating military build-up and designing partnerships to push back against China's assertion of regional influence by providing global public goods. The leaders of the Quadrilateral Security Dialogue (Quad), the United States, Australia, India, and Japan, held their first-ever Quad Summit in March, delivering a potent message of solidarity toward Chinese behaviors that continuously and increasingly frustrate the four countries⁴⁵ and committing to working together on COVID-19 vaccines, climate change, technology innovation, and supply chain resilience.⁴⁶ The United States is also expanding joint military exercises with allies in the region. In May, French, Japanese, American, and Australian troops conducted their first-ever joint field exercise *Jeanne D'Arc 21* in Japan.⁴⁷ And this year's *Talisman Sabre* exercise saw Canada, Japan, South Korea, and the UK sending ships or ground troops to join Australian, New Zealand, and U.S. forces.⁴⁸

A Shared China Agenda for Germany, the EU, and the United States

China presents the United States and its European allies with the most serious challenge since the Cold War.⁴⁹ On one hand, Beijing's strategic ambitions could harm the interests and values of democratic nations on a global scale. On the other hand, China is deeply integrated into the global economy and its support is essential for dealing with global challenges such as climate change and pandemics. The Trump administration largely tried to confront these challenges alone, but it achieved only limited success and allowed Beijing to divide democratic allies on issues ranging from trade to digital infrastructure.⁵⁰ It is a lesson that, faced with an assertive China, transatlantic cooperation is not only beneficial but necessary.

The transatlantic relationship has improved notably under the Biden administration, which quickly returned the United States to a number of crucial multilateral institutions and reaffirmed U.S. commitments to its European partners and NATO allies. Washington's charm offensive is restoring some confidence inside the EU that the United States will not undercut European interests with regard to China and will instead seek its broad assistance in

dealing with Beijing.⁵¹ The United States and the EU have worked to remove some sources of bilateral friction. The agreement to suspend the trade dispute over government subsidies to Boeing and Airbus,⁵² as well as the Brussels decision to put on hold plans for an EU-wide digital tax that would target American tech giants,⁵³ opens the way for stronger transatlantic coordination on China.

European attitudes toward China also have shifted significantly. At the onset of the COVID-19 pandemic, extreme shortages of critical medical supplies demonstrated the acute health security problem of Europe's heavy supply chain reliance on China. Beijing's subsequent pandemic disinformation campaigns, aggressive rhetoric attacks from Chinese diplomats against all forms of criticism, and the Chinese government's year-long crackdown on Hong Kong's pro-democracy protests resulted in record-high levels of negative public opinion in many European countries.⁵⁴ Having previously designated China as "a negotiation partner, an economic partner, and a systemic rival,"⁵⁵ EU and national leaders started to voice the urgency to correct the EU's "excessively asymmetric"⁵⁶ relationship with China. Brussels adopted in 2019 a new EU-wide foreign investment screening mechanism to guard its interests against Chinese investments and takeovers in strategic sectors.⁵⁷ Several European nations rejected or constrained the participation of Chinese firm Huawei in the construction of their national 5G communications infrastructure. And European capitals have grown more vocal in condemning Chinese human rights violations in Xinjiang and Hong Kong. Beijing's sanctions on members of the European Parliament (EP) who have criticized China's human rights abuses against ethnic Uyghurs incensed the EU and prompted the EP to freeze deliberation of the EU-China Comprehensive Agreement on Investment (CAI).⁵⁸ Similar Chinese sanctions against parliamentarians in the Netherlands, Belgium, and Lithuania have generated backlashes at the national level.

Even in Germany, where the country's export-oriented economy has for decades dictated a policy of ever-closer trade and investment ties with China,

concerns are growing about competition from China's economic statecraft as well as Beijing's actions that contradict Germany's values. The German government has tightened its foreign investment screening rules to prevent undesirable technological transfers and strategic acquisition by Chinese companies, and Berlin successfully pushed for an EU-wide investment screening mechanism. After two years of domestic debates over Chinese telecommunications company Huawei's participation in the fledging German 5G networks, Germany's new IT Security Law 2.0 (*Zweites Gesetz zur Erhöhung der Sicherheit informationstechnischer Systeme*) makes it possible for the government to restrict the roles of "untrustworthy" 5G technology suppliers⁵⁹ and presents a harder line toward Beijing on digital security. Germany's new supply chain law (*Lieferkettengesetz*), while not directly referencing China, takes into concern Beijing's human rights violations, including alleged forced labor in Xinjiang,⁶⁰ and could lead to significant changes in Germany's economic relationship with China. Berlin also appears to be responsive to its democratic allies' broader strategic goals toward China. After holding its first-ever 2+2 (foreign and defense ministers) dialogue with Japan earlier in the year,⁶¹ Germany sent its naval frigate *Bayern* to the Indo-Pacific region to uphold the freedom of navigation in international waters and express support for regional partners that share Germany's values.⁶²

Although Chancellor Angela Merkel's government has insisted on continuing its engagement approach with China, domestic demand for a change of course in Berlin's China policy has grown. Members of the German Bundestag, including some from Merkel's own Christian Democratic Union (CDU), have called on the government to act more critically when dealing with Beijing. All of the mainstream political parties emphasize the need to deepen transatlantic cooperation on China, while the Social Democratic Party (SPD), the Greens, and the Free Democratic Party (FDP) call for government actions to seriously address issues such as human rights and nuclear disarmament in their party platforms ahead of this year's federal election.⁶³ Merkel's successor will likely face pressure to make adjustments that better

reflect the systemic risks that China poses to German economic and political interests.⁶⁴

Transatlantic cooperation is particularly relevant in a few areas. Many European countries, especially Germany, have concerns about Chinese merger and acquisition activity (M&A) in sensitive and advanced technologies, and a number of EU member states are in the process of building or further strengthening their foreign direct investment screening mechanisms. U.S. law already requires the Committee on Foreign Investment in the United States (CFIUS) to consult with allies and partners to protect the national security of each side. U.S. and German government agencies should establish regular coordination channels with U.S. counterparts on CFIUS and increase information sharing on screening measures and individual cases.

As the United States continues to employ export control measures to prevent the diffusion of emerging and critical technologies to China, European participation will be necessary for them to be effective. The EU-U.S. Trade and Technology Council (TTC) could be a useful platform to resolve differences and redesign multilateral export control mechanisms. Additionally, the U.S. Department of Treasury and the German Federal Ministry for Economic Affairs and Energy (BMWi) could seek to refine and possibly harmonize their respective definitions for critical technologies, critical infrastructure, and covered transactions. This effort could bridge regulatory gaps and reduce compliance costs and regulatory uncertainty.

Securing digital infrastructure and establishing compatible standards and regulatory approaches for emerging technologies such as artificial intelligence is another important area for transatlantic cooperation. The TTC seems purposefully designed for the United States and the EU to enhance bilateral discussions on 5G networks and other information and communication technologies. TTC working groups on technology standards cooperation, data governance and technology platforms, and ICT security and competitiveness⁶⁵ have great potential for coordinated transatlantic policies to promote secure and resilient digital infrastructure and to push back against authoritarian

digital practices in favor of a global, open, free, stable, and secure cyberspace.

Delivering global public goods is also essential. Existing proposals to provide high-standard, sustainable infrastructure development alternatives to China's BRI, such as the B3W, the Globally Connected Europe strategy, and the Blue Dot Network initiative need to be sufficiently funded and better coordinated between partners to maximize their impact. As Germany and the EU have put forward their Indo-Pacific strategies, it would be helpful to have a tailored approach both within the EU and with the United States so that European strengths in economic engagement and regulatory standard-setting could complement U.S. efforts to expand partnerships with like-minded countries. The United States and the EU should jointly step up efforts to provide high-quality COVID vaccines to developing nations as well as other pandemic-related assistance. They should continue to lead global cooperation on combating climate change and hold themselves—and China—accountable for their climate pledges.

While transatlantic cooperation on China has great potential, there are also very real pitfalls. While Biden has moved the United States away from the nationalist foreign policy of his predecessor, he has repeatedly emphasized his priority on the domestic agenda to reengineer American competitiveness through a more active industrial policy. The promotion of trade liberalization is so far absent in the administration's "Foreign Policy for the Middle Class."⁶⁶ A departure from the United States' traditional foreign economic policy could produce frictions with the EU, which still is built around free and open markets and liberal economic principles.

The Biden administration has been leaning on the prevalent anti-China narrative to galvanize bipartisan support for the allocation of major federal government investments in infrastructure, technology, and human capital. The invocation of China pushes U.S. foreign policy rhetoric further toward bipolarity and a contest of ideologies, which Germany and the EU have steadfastly rejected. Increased enthusiasm in Congress to use sanctions to address China's human rights violations

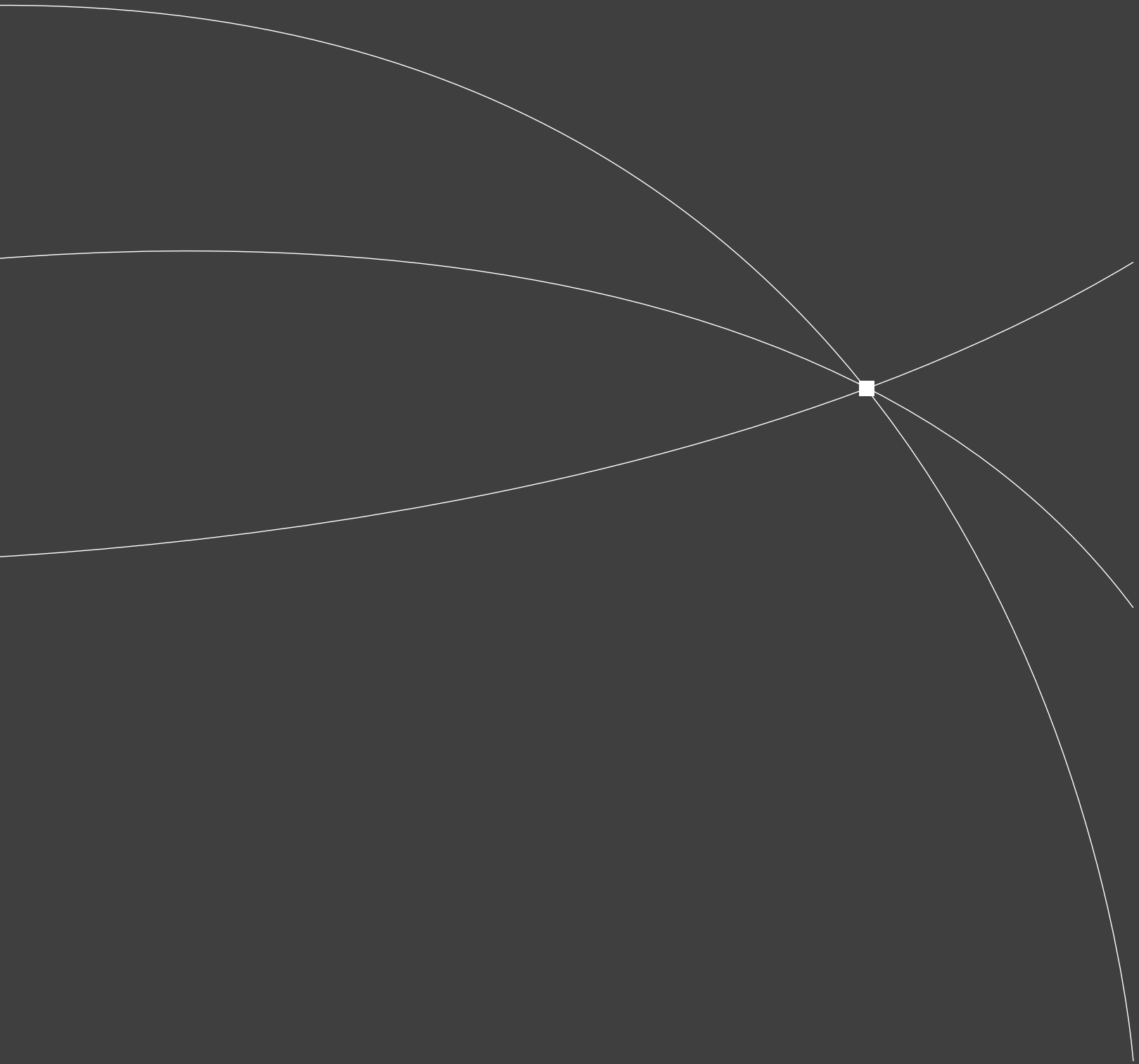
risks turning the exercise into a democratic purity test and could shrink the space for political cooperation with important regional partners from the Indo-Pacific to Africa.

Germany and the EU, on the other hand, have yet to seriously elaborate on the competitive aspects of their relationship with China. The CAI, which was hastily pushed across the finish line in the last days of Germany's EU presidency in 2020, created confusion in transatlantic relations and allowed Beijing to claim a geopolitical victory. Merkel's unwavering support for the deal, even after the EP froze its deliberations, suggests that the EU and its biggest member still prioritize economic engagement with China and largely pay lip service to their systemic rivalry. The next German government will face the challenge of defending more strongly German and European interests toward China while building joint approaches with the United States wherever possible.

NOTES

- ¹ Rush Doshi, "Xi Jinping just made it clear where China's foreign policy is headed," *The Washington Post*, October 25, 2017.
- ² C. Uday Bhaskar, "What Xi Jinping's speech marking the Communist Party centenary means for the world," *South China Morning Post*, July 6, 2021.
- ³ Alexander Chipman Koty, "What is the China Standards 2035 Plan and How Will it Impact Emerging Industries?" China Briefing, July 2, 2020.
- ⁴ Bates Gill, "China's Quest for Greater Technological Self-Reliance," Asia Society, March 23, 2021.
- ⁵ Brian Hart, Bonnie S. Glaser, and Matthew P. Funaiole, "China's 2027 Goal Marks the PLA's Centennial, Not an Expedited Military Modernization," *China Brief*, Volume: 21 Issue:6, The Jamestown Foundation, March 26, 2021.
- ⁶ William J. Broad and David E. Sanger, "A 2nd New Nuclear Missile Base for China, and Many Questions About Strategy," *The New York Times*, July 26, 2021.
- ⁷ U.S. Library of Congress, Congressional Research Service, *China Naval Modernization: Implications for U.S. Navy Capabilities—Background and Issues for Congress*, by Ronald O'Rourke, RL33153.
- ⁸ Ryan Pickrell, "Photos of China's new aircraft carrier are leaking, and they appear to show a modern flattop in the making," *Insider*, July 10, 2021.
- ⁹ Yasmin Tadjeh, "China Building Formidable Amphibious Fleet," *National Defense Magazine*, June 25, 2021.
- ¹⁰ Edmund J. Burke, Kristen Gunnes, Cortez A. Cooper III, and Mark Cozad, "People's Liberation Army Operational Concepts," Rand Corporation, 2020. p.7.
- ¹¹ Elsa B. Kania and Lorand Laskai, "Myths and Realities of China's Military-Civil Fusion Strategy," Center for A New American Security, January 28, 2021.
- ¹² Bonnie S. Glaser, "Time for Collective Pushback against China's Economic Coercion," Center for Strategic & International Studies, January 13, 2021.
- ¹³ Weizhen Tan, "China restricted imports from Australia. Now Australia is selling elsewhere," *CNBC*, June 2, 2021.
- ¹⁴ David Josef Volodzko, "China wins its war against South Korea's US THAAD missile shield-without firing a shot," *South China Morning Post*, November 18, 2017.
- ¹⁵ Amanda Coletta, "China has put Canadian canola oil in the middle of a wider geopolitical dispute," *The Washington Post*, March 27, 2019.
- ¹⁶ Courtney J. Fung and Shing-Hon Lam, "China already leads 4 of the 15 U.N. specialized agencies and is aiming for a 5th," *The Washington Post*, March 3, 2020.
- ¹⁷ Yaroslav Trofimov, Drew Hinshaw, and Kate O'Keeffe, "How China Is Taking Over International Organizations, One Vote at a Time," *The Wall Street Journal*, September 29, 2020.
- ¹⁸ Keith Bradsher and Ana Swanson, "China-Led Trade Pact IS Signed, in Challenge to U.S.," *The New York Times*, November 24, 2020.
- ¹⁹ Stuart Lau, "Lithuania Pulls out of China's '17+1' bloc in Eastern Europe," *Politico.EU*, March 21, 2021.
- ²⁰ "China is betting that the West is in irreversible decline," *The Economist*, May 31, 2021.
- ²¹ Jessica Brandt and Bret Schafer, "How China's 'wolf warrior' diplomats use and abuse Twitter," The Brookings Institution, October 28, 2020.
- ²² Katerina Ang and Adam Taylor, "As U.S. calls for focus on covid origins, China repeats speculation about U.S. military base," *The Washington Post*, May 27, 2021.
- ²³ "China, Russia agree to upgrade relations for new era," *Xinhuanet.com*, June 6, 2019.
- ²⁴ Paul N. Schwartz, "The Changing Nature and Implications of Russian Military Transfers to China," Center for Strategic & International Studies, June 21, 2021.
- ²⁵ Farnaz Fassihi and Steven Lee Myers, "China, With \$400 billion Iran Deal, Could Deepen Influence in Mideast," *The New York Times*, March 27, 2021.
- ²⁶ Jarrett Renshaw, Andrea Shalal, and Michael Martina, "Biden says China won't surpass U.S. as global leader on his watch," *Reuters*, March 25, 2021.
- ²⁷ Benjy Sarlin and Sahil Kapur, "Why China may be the last bipartisan issue left in Washington," *NBC News*, March 21, 2021.
- ²⁸ Legislation search, *Congress.gov*. Accessed June 25, 2021.
- ²⁹ Cissy Zhou, "US-China trade war hits third anniversary, with no sign of Joe Biden easing economic pressure," *South China Morning Post*, July 6, 2021.
- ³⁰ David Lawder, "U.S. trade chief: new legal tools needed to combat future China threats," *Reuters*, May 13, 2021.
- ³¹ Ellen Nakashima, "Biden administration slaps export controls on Chinese firms for aiding PLA weapons development," *The Washington Post*, April 8, 2021.
- ³² Karen Freifeld, "Biden nominates Huawei prosecutor for key China export post," *Reuters*, July 28, 2020.
- ³³ The White House, *Building Resilient Supply Chains, Revitalizing American Manufacturing, And Fostering Broad-Based Growth—100-Day Reviews under Executive Order 14017*, June 2021.
- ³⁴ Nikole Snyder, Townsend L. Bourne, and David S. Gallacher, "At a Glance: White House 100-Day Supply Chain Report," *The National Law Review*, June 29, 2021.
- ³⁵ *United States Innovation and Competition Act of 2021*, S. 1260, 117th Cong., 1st sess.
- ³⁶ The White House, "Fact Sheet: The American Jobs Plan," March 31, 2021.
- ³⁷ Susan A. Thornton, "Biden's First 100 Days: Prospects for Transatlantic Cooperation on Policies Toward China," *American Institute for Contemporary German Studies*, May 11, 2021.
- ³⁸ Aamer Madhani, "Biden declares 'America is back' in welcome words to allies," *AP News*, February 19, 2021.
- ³⁹ Mike Memoli and Carol E. Lee, "On Biden's first overseas trip, a foreign policy geared for domestic consumption," *NBC News*, June 8, 2021.
- ⁴⁰ The White House, "Fact Sheet: President Biden and G7 Leaders Launch Build Back Better World (B3W) Partnership," June 12, 2021.
- ⁴¹ NATO, "Brussels Summit Communique—Issues by the Heads of State and Government participating in the meeting of the North Atlantic Council in Brussels 14 June 2021," June 14, 2021.
- ⁴² Konstantinos Komaitis and Justin Sherman, "The EU-US Tech Council Shouldn't just focus on China," *The Brookings Institution*, July 20, 2021.
- ⁴³ Robin Emmott and David Brunnstrom, "West sanctions China over Xinjiang abuses, Beijing hits back at EU," *Reuters*, March 22, 2021.
- ⁴⁴ John Hudson and Ellen Nakashima, "U.S., allies accuse China of hacking Microsoft and condoning other cyberattacks," *The Washington Post*, July 19, 2021.
- ⁴⁵ Susan A. Thornton, "The Quad (finally) delivers: Can it be sustained?" *The Brookings Institution*, April 14, 2021.
- ⁴⁶ Sheila A. Smith, "The Quad in the Indo-Pacific: What to Know," *Council on Foreign Relations*, May 27, 2021.
- ⁴⁷ Jan van der Made, "France joins Japan and the US in military exercises in the Pacific," *Radio France International*, May 11, 2021.
- ⁴⁸ Mike Yeo, "See F-38B jets take off at sea for Australian exercise Talisman Sabre," *Defense News*, July 28, 2020.
- ⁴⁹ Hans Binnendijk, Sarah Kirchberger et al. "The China plan: A transatlantic blueprint for strategic competition," *Atlantic Council*, March 22, 2021.
- ⁵⁰ Yixiang Xu, "Shaping A Common China Strategy: A New Anchor in The Transatlantic Relationship in An Era of Global Strategic Competition," *Enduring Partnership—Recommendations to the Next U.S. Administration for the German-American Relationship* (pp.35-40), *American Institute for Contemporary German Studies*, June 24, 2020.
- ⁵¹ Yixiang Xu, "EU Answers U.S. Call to Cooperate on China, Now Comes the Hard Part," *American Institute for Contemporary German Studies*, April 1, 2021.
- ⁵² Daniel Michaels, Andrew Restuccia and Doug Cameron, "U.S. and

- EU Agree to Suspend Airbus-Boeing Trade Fight," *The Wall Street Journal*, June 15, 2021.
- 53 "Brussels presses pause on plans for an EU-wide digital tax," Euronews.com, July 12, 2021.
- 54 Laura Silver, Kat Delvin and Christine Huang, "Unfavorable Views of China Reach Historic Highs in Many Countries," Pew Research Center, October 6, 2020.
- 55 The European Commission, *EU-China - A Strategic Outlook*, March 12, 2019.
- 56 Stuart Lau, "EU must correct China economic ties before it's too late: Josep Borrell," *South China Morning Post*, August, 30 2020.
- 57 Manisha Reuter, "Responding to the China challenge: The state of play on investment screening in Europe," European Council on Foreign Relations, November 27, 2020.
- 58 Robin Emmott, "EU parliament freezes China deal ratification until Beijing lifts sanctions," *Reuters*, May 20, 2021.
- 59 Laurens Cerulus, "Germany falls in line with EU on Huawei," Politico.EU, April 23, 2021.
- 60 Frederick Kliem, "Germany's supply chain law will further complicate China relations," *Nikkei Asia Review*, July 15, 2021.
- 61 Ministry of Foreign Affairs of Japan, "Press Release—Japan-Germany Foreign and Defense Ministers' Meeting ("2+2")," April 13, 2021.
- 62 Sebastian Sprenger, "German warship 'Bayern' head to the Indo-Pacific," *Defense News*, August 3, 2021.
- 63 Ariane Reimers, "Veränderung in der deutschen China-Politik? Ein Blick in die Wahlprogramme," Mercator Institute for China Studies, June 24, 2021.
- 64 Andrew Small, "AICGS Asks: What is Angela Merkel's legacy on engagement with China?" American Institute for Contemporary German Studies, July 2, 2021.
- 65 "EU-US launch Trade and Technology Council to lead values-based global digital transformation," European Commission, June 15, 2021.
- 66 James Traub, "Biden's 'Foreign Policy for the Middle Class' Is A Revolution," *Foreign Policy*, March 17, 2021.



ASSEMBLING A TRANSATLANTIC AGENDA FOR ECONOMIC AND STRATEGIC COOPERATION WITH CHINA

Assess Economic Challenges from China

In the past decade, China has sustained a fast rate of economic growth and quickly moved up the global value chain. It is now the world's largest trading nation, the second-largest economy,¹ and a leader in digital transformation that is changing the patterns of global trade. But the earlier assumption that China's economic liberalization would gradually transform its political system and in turn strengthen the liberal international order has not materialized.² Instead, the Chinese Communist Party (CCP) under Xi Jinping is asserting more control over the Chinese commercial sector,³ and China's trade practices now present a major challenge to the rules-based global trading system. The success of Beijing's economic statecraft at home and abroad is driving the United States and the EU to defend their economic, national security, and strategic interests.

Limited market access for imported goods, foreign manufacturers, and foreign service providers in China ranks among the top issues in economic relations between advanced economies and China. Extensive market access barriers, protectionism, an opaque regulatory system, and discriminatory enforcement⁴ continue to hinder the operations of U.S. and European businesses in China. Even as Beijing announced further openings of its manufacturing and financial services sectors to foreign investment,⁵ American and European firms could find themselves going up against established Chinese competitors who often saturate or dominate sectors.

For years, the United States and the EU have complained about excessive and often secretive

Chinese state subsidies that created a significant distortion in global markets. China's state-led, nonmarket system and its strategic use of other measures create policies that circumvent WTO rules on subsidies.⁶ Of particular concern to European and U.S. governments is the Chinese government's use of subsidies to enhance its industrial competitiveness in strategic sectors. Chinese subsidies for state-owned enterprises (SOEs), often much more extensive than for private companies,⁷ made it possible for SOEs to dominate domestic Chinese markets in sectors such as electric vehicles and railways and gave them a significant price advantage in overseas markets. In certain cases, including Chinese steel, aluminum, and shipbuilding industries, subsidies ended up in acute excess production and led to the deterioration of the international market.⁸

Inadequate intellectual property (IP) protection in China is another major point of contention. Forced technology transfer, whereupon foreign companies are coerced into disclosure or transfer of technologies and sensitive information through mandatory participation in joint ventures with Chinese partners or application of licensing agreements to Chinese government agencies under unfavorable terms,⁹ as well as outright IP theft are particularly damaging to U.S. and European companies. A 2017 report by the United States Trade Representative (USTR) estimates the cost of Chinese theft of American IP to be between \$225 billion and \$600 billion annually.¹⁰ The 2018 USTR Section 301 report on China's IP practices accuses Beijing of forced technology transfer, licensing restrictions, and cyber theft to retard U.S. companies' abilities to retain and profit from IP under fair market conditions.¹¹ An EU report on IP protection and enforcement

finds that aside from a low level of protection for trade secrets and rampant copyright piracy, forced technology transfer continues to be a systemic problem in China.¹²

Another major source of Chinese acquisition of cutting-edge technologies and IP is through foreign direct investment (FDI) by Chinese firms, many of which are either SOEs or private entities with support from the Chinese government. Some of the targets are dual-use technologies that could have military applications for the People's Liberation Army (PLA), while others relate to critical national infrastructures. China's military-civil fusion program,¹³ which seeks to leverage civil technological advancements for military development, is an additional cause for concern over Chinese acquisition of advanced and dual-use technologies through business ties. A wave of rapidly growing Chinese acquisition of European technology companies following the 2008-2009 global financial crisis, especially in information and communications technology (ICT), industrial machinery and equipment, and transport, utilities, and infrastructure,¹⁴ alerted German and other European politicians to the need for having an investment screening mechanism similar to the Committee on Foreign Investment in the United States (CFIUS) to safeguard sensitive technologies against potential threats to national security.

Aside from the acquisition of foreign technologies, China is employing a whole-of-nation approach to step up domestic research and development (R&D) efforts to reduce its reliance on imported technology and lead global innovation. The Made in China 2025 and China Standards 2035 plans set out the government's vision for Chinese technology champions to become self-sufficient in designing and producing high-tech products such as semiconductors,¹⁵ set global standards for emerging technologies such as 5G and artificial intelligence (AI), and upgrade China's industrial sectors to better compete in the international market. Beijing is backing up its plans with serious funding commitments. China Development Bank, a policy lender that finances high-priority government programs, has earmarked ¥400 billion (\$62 billion) in loans in 2021 to support strategic emerging industries and

advanced manufacturing.¹⁶ Thousands of Chinese government guidance funds (GGFs), financed by central and local governments and with a total asset of ¥5.7 trillion (\$892 billion),¹⁷ are deployed to nurture homegrown innovations.

China's growing economic and technological capacity has fueled its outward engagements, especially through traditional infrastructure investment projects such as roads, railways, and ports and digital infrastructure and services. Chinese President Xi Jinping's Belt and Road Initiative (BRI) promotes large, Chinese-built, and often Chinese-financed infrastructure projects abroad to secure access to land and maritime transportation routes, expand presence in existing and new markets, and export Chinese technologies and standards. It is also part of China's trade and investment initiatives that seek to advance regional economic integration in Eurasia and induce greater economic reliance on China.¹⁸ The conclusion of the Regional Comprehensive Economic Partnership (RCEP) between fifteen countries in the Indo-Pacific, many of which are U.S. allies, is a triumph for Beijing's economic diplomacy and further cements China's image as the dominant economic power in the region.¹⁹

Accompanying China's expanding economic footprint is the government's increasing exercise of economic coercion to punish countries and businesses whose policies Beijing considers as harmful to Chinese interests. U.S. airlines experience retaliation for listing Taiwan as a separate country,²⁰ and China's state-run broadcaster China Central Television (CCTV) banned NBA games for a year after a team official tweeted support for protestors in Hong Kong.²¹ In Europe, China blocked imports of Norwegian salmon after the Nobel Committee awarded the Peace Prize to Chinese human-rights activist Liu Xiaobo²² and threatened Sweden with trade restrictions for giving a freedom of speech prize to the detained Chinese-born Swedish publisher Gui Minhai.²³

Challenge China's Trade Practices through Investment Screening, Export Control, and Foreign Subsidy Rules

On both sides of the Atlantic, attitudes toward economic ties with China have shifted, leading to more government intervention to better manage economic and strategic competition with China. In the United States, the Biden administration has expanded the rhetoric of acute economic competition with Beijing. In his speech to the 2021 Munich Security Conference, President Biden emphasized the need to “push back against the Chinese government’s abuses and coercion that undercut the foundations of the international economic system.”²⁴ The EU has deemed China an economic and systemic rival²⁵ and is frustrated by the lack of progress on economic promises made by the CCP leadership.²⁶ And last year, the EU’s foreign policy chief Josep Borrell called on EU members to correct economic imbalances with Beijing.²⁷

In Germany, where Chancellor Angela Merkel’s unwavering engagement policy has enabled Europe’s largest economy to reap huge benefits through close bilateral trade and investment ties, demand is growing to push back against China’s economic practices. A string of high-profile Chinese acquisitions of German technology companies and industrial machinery manufacturers, including industrial robotics maker Kuka, chip equipment manufacturer Aixtron SE (failed), and aerospace supplier Cotesa, prompted Berlin to strengthen its defense against strategic Chinese takeovers.²⁸ In 2019, the Federation of German Industries (BDI), a leading business group in Germany, urged the German government and the EU to strengthen their own economic policy framework in order to counter challenges posed by China’s state-controlled economy.²⁹ Ahead of the 2021 Bundestag election, all major German political parties highlighted the need for fair economic relations with reciprocal market access, legal certainty, and equal competition conditions.³⁰

As the United States, Germany, and the EU moved to stop undesirable transfers of critical and

emerging technologies and mitigate potential threats to national security, they increasingly rely on new or enhanced investment screening and export control measures.

The Foreign Investment Risk Review Modernization Act of 2018 (FIRRMA) significantly broadened the jurisdiction of CFIUS and expanded the scope of inbound foreign investment subject to review. The bill includes a “sense of Congress” section that directs CFIUS to consider if the country in question has a “strategic goal of acquiring a type of critical technology or critical infrastructure that would affect [U.S.]...leadership...in areas related to national security.”³¹ It mandates reviews of transactions involving “critical technologies,” moving the objective of CFIUS analysis beyond national security to oversight in U.S. competitive edge in emerging technologies. The bill also provides for updating the list of critical technologies.³² On CFIUS’ recommendation and invoking national security, the Trump administration ordered Chinese internet technology company ByteDance to divest all of its interests in the mobile application TikTok.³³

Germany has also implemented reforms to tighten restrictions on foreign direct investment with a special focus on critical industries and technologies. Starting from 2017, the German Federal Ministry for Economic Affairs and Energy (BMWi) has been granted more power to review a wider range of transactions and created a list of “critical technologies” that requires mandatory notification at a low threshold.³⁴ That consideration was evident in the German government’s decision to block the takeover of satellite and radar technology firm IMST by a subsidiary of state-controlled missile maker China Aerospace and Industry Group (CASIC)³⁵ in late 2020. The 2021 revision of the Foreign Trade and Payments Ordinance (*Außenwirtschaftsverordnung*) significantly extended the scope of FDI review of German technology companies and expanded the list of critical industries which now includes emerging technologies such as AI and quantum technology.³⁶ Berlin was instrumental in pushing for the establishment of the EU’s FDI regulatory framework, which creates an apparatus for information-sharing

between the European Commission and member states and raises the minimal core requirements for member states' screening mechanisms.³⁷

The Export Control Reform Act of 2018 (ECRA) gave the U.S. executive branch broad freedom to restrict Chinese access to “emerging and foundational technologies” when government intervention is “essential to the national security of the United States.”³⁸ Under the law, the Bureau of Industry and Security (BIS) is tasked to update U.S. export controls and is mandated to ensure the multilateral adoption of any new U.S. controls. In 2020, the BIS implemented multilateral controls on emerging technologies which the United States and other participating states agreed to at the 2019 Plenary meeting of the Wassenaar Arrangement on Export Controls for Conventional Arms and Dual-Use Good and Technologies (Wassenaar Arrangement), adding six recently developed or developing technologies that are essential to U.S. national security.³⁹ These include forensic hacking tools, surveillance software, sub-orbital craft, and manufacturing tools and technology used to make integrated circuits and semiconductors. All these technologies are critical to realizing Beijing's industrial and strategic goals.

Growing concerns about China's technology acquisition as well as Beijing's human rights abuses in Xinjiang and Hong Kong persuaded EU members to update the bloc's export control regulation.⁴⁰ The EU's newly adopted Dual-Use Regulation authorizes restrictions on exports of items that could be used to support human rights abuses and targets “cyber-surveillance items.” Notably, China is among a small number of countries that are excluded from exports of controlled encryption items that can be used in connection with “a military, police, or surveillance end-use; or violations of human rights, democratic principles, or freedom of expression.”⁴¹

Transatlantic governments have sought new remedies, both in nationally administered protection and in the World Trade Organization (WTO) to deal with subsidy concerns from China. In early 2020, the trilateral group of the United States, the EU, and Japan agreed on the outlines of changes to the

WTO Agreement on Subsidies and Countervailing Measures (ASCM), which target trade-distorting subsidies, including those used by Beijing to support strategic industries. This year, with China in mind, the European Commission proposed a new regulation to tackle foreign subsidies causing distortions in the single market. This would allow the Commission to scrutinize foreign companies acquiring European assets or involved in public procurement in the EU.⁴² In the 117th Congress that convened in January 2021, fifteen bills and resolutions addressing subsidies have already been introduced, including the Eliminating Global Market Distortions to Protect American Jobs Act,⁴³ which aims to “strengthen U.S. antidumping and countervailing duty laws to challenge China's unfair trade practices.”⁴⁴

Build A Competitive Transatlantic Economic Agenda

While it is evident that the United States, Germany, and the EU are converging on both their desire to address economic challenges from China and some of the instruments in their employment, it is clear that coordination among transatlantic partners is essential. National economic and security risks cannot be adequately addressed by unilateral actions in highly interdependent global value chains. Unilateral investment screening, export controls, and countervailing duties are less effective and costlier as targeted activities are simply diverted rather than deflected.⁴⁵

The Biden administration has quickly returned transatlantic relations to a friendly, cooperative footing after four years of nationalist, lone-wolf U.S. trade policy that poisoned America's relationship with its European allies and partners and undermined the multilateral trading system. Momentum for cooperation is on the rise. In the Carbis Bay G7 communique, the members united in their strong criticism toward China and pledged “to consult on collective approaches to challenging non-market policies and practices which undermine the fair and transparent operation of the global economy,”⁴⁶ as well as to enhance cooperation on investment security within the G7 Investment Screening Expert Group. China's economic coercion was mentioned

as an issue for transatlantic coordination in the 2021 EU-U.S. Summit statement.⁴⁷ The newly established EU-U.S. Trade and Technology Council (TTC) sets up working groups on issues including export controls, investment screening, and global trade challenges, which would operationalize political decisions through necessary technical coordination to advance policy alignment.

Yet transatlantic cooperation to challenge China's trade practices is still easier said than done. Although the months since Biden's inauguration have seen a boom of productive trust-building exercises with Germany and the EU, transatlantic differences on China remain. On the one hand, the Biden administration has leaned on an anti-China narrative to galvanize bipartisan support for major federal government investments in the president's infrastructure and job plans. On the other hand, many EU members, notably Germany, are much more circumspect about adopting strong anti-China political rhetoric and creating the impression of a democratic crusade against China. Shared values are easy to define, but they are much more difficult to implement. In this case, the coordinated sanctions on Chinese officials over human rights abuses against ethnic Uyghurs,⁴⁸ as well as China's counter sanction on European parliamentarians that prompted the European Parliament to freeze consideration of the EU-China Comprehensive Agreement in Investment (CAI),⁴⁹ may be an isolated and temporary success.

New conflicts between the transatlantic partners could arise from their increasing use of industrial subsidies to pursue their respective domestic policy goals. Biden's ambitious agenda which includes domestic manufacturing and scientific research, large infrastructure investments, and the American Jobs Plan would see large amounts of U.S. government subsidies, and the administration's Buy America Rule could clash with agreements on open procurement and national treatment. Similarly, German state support for semiconductor chip manufacturing,⁵⁰ among other high-technology industries under the Important Project of Common European Interest (IPCEI), could also generate tension. And the Biden administration has already voiced concerns over the EU's carbon border

adjustment mechanism⁵¹ which would protect European manufacturers facing higher carbon costs, even as the Democrats in Congress have proposed a carbon border tax⁵² and measures to support carbon capture, utilization, and storage (CCUS) infrastructure.⁵³

Trade defense instruments themselves are also problematic. Trade remedies are often too little, too late—they are usually deployed after significant damage has already been done to the industry in the non-subsidizing country and often fail to dislodge market positions gained through subsidization. The WTO's definition of the nature of the entity considered capable of providing the requisite financial contribution means SOEs sometimes escape scrutiny. Furthermore, fundamental disagreements exist between countries regarding how to determine counterfactual market prices in the absence of market conditions. Export controls cost firms in lost export sales. They also have the ability to rearrange market positions, which can have knock-on effects. Without transatlantic coordination, unilateral U.S. export controls could expose European companies to secondary sanctions. (ASML, a Dutch company that sells EUV lithography machines that are vital to cutting-edge semiconductors, has been unable to sell to its Chinese customer Semiconductor Manufacturing International Corp (SMIC) after the United States put the Chinese chip manufacturer on the Commerce Department's entity list and pressured the Dutch government to withhold a necessary export license.⁵⁴)

In the short term, it may be pragmatic for the United States and its European partners to focus their cooperation in a few selective areas, such as enhancing information sharing on investment screening cases and IP infringers through the TTC, banning the importation of products made with forced labor, and revising export controls regarding ICT and human rights through existing multilateral mechanisms such as the Wassenaar Arrangement where it is easier to achieve political consensus. Further ahead, developing common anti-coercion instruments that could impose significant costs on the Chinese government for arbitrary punishment or retaliation against American or European firms

looks to be increasingly necessary. As China's imposition of hefty tariffs on Australian imports after the bilateral relationship deteriorated amid rapidly escalating disputes over foreign interference, Chinese investment, COVID-origin investigation, and human rights abuses in China⁵⁵ demonstrates, Beijing stands ready to inflict significant financial damage on foreign companies and to do so without transparency or legal justification. Common anti-coercive instruments can present a strong united front against Beijing's growing penchant to use coercive economic measures to achieve its political goals. Transatlantic partners should also engage a wide range of would-be international partners to reinvigorate and adapt the multilateral trading system to the changing reality of global geoeconomics and continue to push China to abide by its rules.

Aside from trade defense measures and other efforts to counter the negative effects of China's economic statecraft, a transatlantic economic agenda that looks to compete with China must also include elements of positive cooperation. Coordination on issues such as data governance, platform economy, technology standards (including AI and Internet of Things, among other emerging technologies), decarbonization, and economic inclusion can help to strengthen American and European industrial competitiveness, drive technological innovation, and deliver value-based public goods. That is the best way to show China and the world that when faced with competition, an open, democratic, and rules-based economic system can adapt, innovate, and prosper.

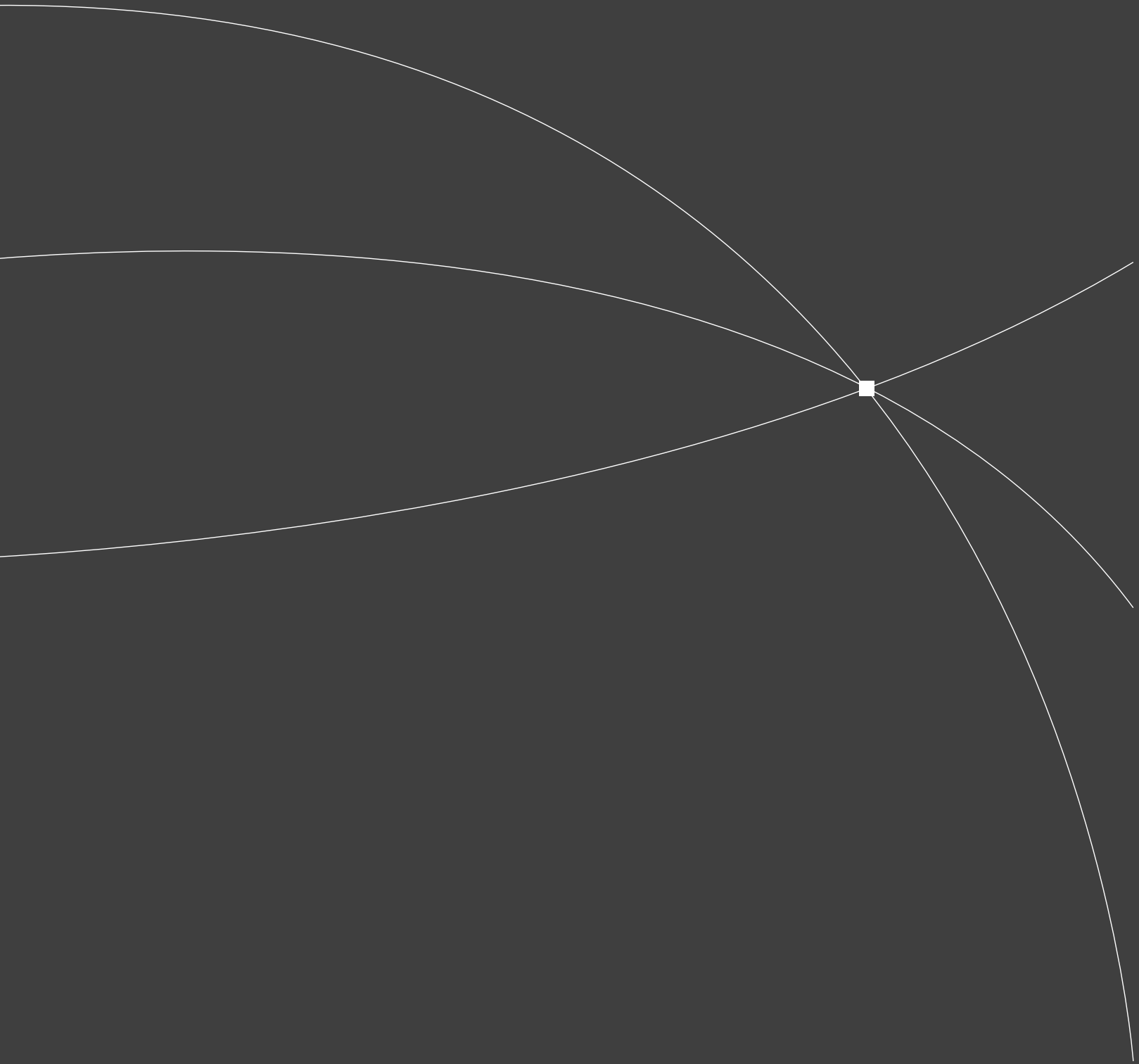
NOTES

- 1 David Dollar and Ryan Hass, "Getting the China challenge right," The Brookings Institution, January 25, 2021.
- 2 Anna Stahl and Yixiang Xu, "A New Age of Transatlantic Alliance? U.S. China policy after the presidential election and its implications for the EU," Jacques Delors Centre, December 21, 2020.
- 3 Scott Livingston, "The Chinese Communist Party Targets the Private Sector," Center for Strategic & International Studies, October 8, 2020.
- 4 AmCham China, 2021 American Business in China White Paper, May 2021.
- 5 Cissy Zhou, "China eases restrictions on foreign investors, but is it too little too late?" *South China Morning Post*, June 25, 2020.
- 6 Chad P. Bown and Jennifer A. Hillman, "The October Truce on US-China Trade Failed to Address Subsidies," Peterson Institute for International Economics, October 22, 2019.
- 7 Jane Cai, "Why China's subsidized state-owned enterprises anger US, Europe—and its own private companies," *South China Morning Post*, February 21, 2019.
- 8 Shinya Matano, "The Impact of China's Industrial Subsidies on Companies and The Response of Japan, The United States, and The European Union," Mitsui & Co. Global Strategic Studies Institute, January 2021.
- 9 Sean O'Connor, "How Chinese Companies Facilitate Technology Transfers from the United States," U.S.-China Economic and Security Commission, May 6, 2019.
- 10 Office of the United States Trade Representative, *2017 Special 301 Report*, April 2017.
- 11 Office of the United States Trade Representative, *Update Concerning China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation*, November 20, 2018.
- 12 The European Commission, *Commission Staff Working Document—Report on the protection and enforcement of intellectual property rights in third countries SWD (2021) 97 Final*, April 27, 2021.
- 13 Elsa B. Kania and Lorand Laskai, "Myth and Realities of China's Military-Civil Fusion Strategy," Center for a New American Security, January 28, 2021.
- 14 Agatha Kratz, Mikko Huotari, Thilo Hanemann, and Rebecca Arcesati, "Chinese FDI in Europe: 2019 Update," Mercator Institute for China Studies, April 8, 2020.
- 15 Alexander Chipman Koty, "What is the China Standards 2035 Plan and How Will it Impact Emerging Industries?" China Briefing, July 2, 2020.
- 16 Celia Chen, "US-China tech war: Beijing's main policy lender pledges US\$62 billion to fund tech innovation," *South China Morning Post*, March 4, 2021.
- 17 Sun Yu, "China technology funds battle to hit profit targets," *Financial Times*, June 8, 2021.
- 18 Joshua P. Meltzer, "China's One Belt One Road Initiative: A view from the United States," The Brookings Institution, June 19, 2017.
- 19 Keith Bradsher and Ana Swanson, "China-Led Trade pact Is Signed, in Challenge to the U.S.," *The New York Times*, November 15, 2020.
- 20 Peter Harrell, Elizabeth Rosenberg, and Edoardo Saravalle, "China's use of Coercive Economic Measures," Center for a New American Security, June 11, 2018.
- 21 Ben Cohen and James T. Areddy, "One Year After China Banned the NBA, Basketball Returns to Chinese TV," *The Wall Street Journal*, October 9, 2020.
- 22 Richard Milne, "Norway sees Liu Xiaobo's Nobel Prize hurt salmon exports to China," *Financial Times*, August 15, 2013.
- 23 Jojje Olsson, "China Tries to Put Sweden on Ice," *The Diplomat*, December 30, 2019.
- 24 Kevin Breuninger, "Biden says U.S. and Europe must push back against China's economic 'abuses and coercion,'" CNBC, February 19, 2021.
- 25 European Parliament, *China: From partner to rival*, October 2, 2020.
- 26 Stuart Lau, "EU slams China's 'authoritarian shift' and broken economic promises," *POLITICO.EU*, April 25, 2021.
- 27 Stuart Lau, "EU must correct China economic ties before it's too late: Josep Borrell," *South China Morning Post*, August 30, 2020.
- 28 Noah Barkin, "Germany's Strategic Gray Zone With China," Carnegie Endowment for International Peace, March 25, 2020.
- 29 The Federation of German Industries (BDI), *Partners and Systemic Competitor—How Do We Deal with China's State-Controlled Economy?* January 2019.
- 30 Ariane Reimers, "Veränderung in der deutschen China-Politik? Ein Blick in die Wahlprogramme," Mercator Institute for China Studies, June 24, 2021.
- 31 Martin Chorzempa, "Confronting China through CFIUS Reform: Improved, But Still Problematic," Peterson Institute for International Economics, June 13, 2018.
- 32 Claude Barfield, "Targeting China's high-tech protectionism: CFIUS is not enough," American Enterprise Institute, July 5, 2018.
- 33 Presidential Order, "Regarding The Acquisition of Musical.LY By Bytedance LTD.," *Federal Register* 85, no. 161 August 14, 2020.
- 34 Maria Brakalova, "Update on Foreign Direct Investments in Germany," Dentons, February 18, 2020.
- 35 Michael Nienaber, "Germany Blocks Chinese takeover of satellite firm on security concerns-document," *Reuters*, December 8, 2020.
- 36 Till Hoppe, "Bundesregierung verschärft Sicherheitsprüfung für ausländische Investoren," *Handelsblatt*, April 27, 2021.
- 37 Sarah Erikson, "Recent Developments in EU Foreign Investment Screening," Center for Strategic and International Studies, April 19, 2021.
- 38 Loren DeJonge Schulman and Ainikki Riikonen, "Trust the process: National Technology Strategy Development, Implementation, and Monitoring and Evaluation," Center for a New American Security, April 20, 2021.
- 39 U.S. Department of Commerce, Bureau of Industry and Security, "Implementation of Certain New Controls on Emerging Technologies Agreed at Wassenaar Agreement 2019 Plenary," *Federal Register* 85, no. 193, October 5, 2020.
- 40 Peter Chase, "The EU, Export Controls, and Minding the National Security Gap," The German Marshall Fund of the United States, January 29, 2021.
- 41 Mario Mancuso, Anthony Rapa, and Anais Bourbon, "EU to impose stricter export controls on cyber-surveillance items," *Reuters*, June 15, 2021.
- 42 European Commission, "Commission proposes new regulation to address distortions caused by foreign subsidies in the Single Market," May 5, 2021.
- 43 *Eliminating Global Market Distortions to Protect American Jobs Act of 2021*, S.1187, 117th Cong., 1st sess.
- 44 Office of Rob Portman, "Press Release—Portman, Brown Introduce Legislation to Strengthen Trade Remedy Laws, Protect American Workers," April 16, 2021.
- 45 Mary E. Lovely, "Expanding the Transatlantic Toolbox for Economic and Strategic Competition with China—Export Control, Foreign Subsidy Rules, and Investment Screening," American Institute for Contemporary German Studies, June 22, 2021.
- 46 The White House, *Carbis Bay G7 Summit Communique*, June 13, 2020.
- 47 European Council, *EU-U.S. Summit 2021-Statement: Toward a renewed Transatlantic Partnership*, June 15, 2021.
- 48 "Uighurs: Western countries sanction China over rights abuses," BBC News, March 22, 2020.
- 49 Stuart Lau, "European Parliament vote to 'freeze' investment deal until China lifts sanctions," *Politico.EU*, May 20, 2021.
- 50 "Germany ready to double state aid for semiconductor industry-minister," *Reuters*, July 1, 2021.
- 51 Kira Taylor, "US raises concerns over Europe's planned carbon 'border tax,'" *Euractive*, May 31, 2021.
- 52 "Democrats Propose a Border Tax Based on Countries' Greenhouse Gas Emissions," *The New York Times*, July 19, 2021.

⁵³ Office of Chris Coons, "Nation's first comprehensive CO2 infrastructure bill passes committee," July 14, 2021.

⁵⁴ Stu Woo and Yang Jie, "China Wants a Chip Machine From the Dutch. The U.S. Said No." *The Wall Street Journal*, July 17, 2021.

⁵⁵ Stephen Dziedzic, "Chinese official declares Beijing has targeted Australian goods as economic punishment," ABC News (Australian Broadcasting Corporation), July 7, 2021.



DEALING WITH CHINA IN THE DIGITAL WORLD: TOWARD A TRANSATLANTIC ALLIANCE

China's Digital Superpower Ambition in Practice

If China's challenge to the existing international trade and political order is an exercise of traditional great power competition, its aspiration in the digital sphere is to create the rules of engagement on a new frontier. In three decades, China has transformed its economy from one that prodigiously manufactured products innovated in other countries to one that now drives global innovation in emerging technologies. China's rapid development in digital technologies gives the country a unique opportunity to shape global value chains, transform security in cyberspace and the physical world, and alter the balance of geostrategic competition.

China is leading the global adoption of 5G technology. Since the rollout of its 5G networks in November 2019,¹ the Chinese government has reported the deployment of 916,000 5G base stations, making up 70 percent of the world's total.² Chinese national telecommunications technology champion Huawei currently holds the largest number of 5G standard essential patents (SEPs).³ Although increasingly shunned by Western democratic governments and their allies, the company still holds a 20 percent share of the wireless infrastructure equipment market outside China⁴ and is leading the market in South America (34 percent), Southeast Asia (40 percent), and Africa (70 percent).⁵

Artificial intelligence (AI) is another area where China has made fast progress. Despite the still-lower amount of private funding in China than in the United States,⁶ Beijing, as well as local governments, have supported the sector with lavish public investments.⁷ The Chinese government desig-

nated AI as a "fundamental core area" for national security⁸ and its AI strategy called for China to become the world leader in AI by 2030.⁹ Chinese technology companies have deployed AI in a range of products, from e-commerce platforms to visual recognition systems to autonomous vehicles.¹⁰ China's large domestic market with its hundreds of millions of hyper-adoptive consumers continues to fuel the growth of indigenous AI solutions, while Beijing is keen to employ new AI applications to bolster its domestic surveillance network¹¹ and integrate AI-enabled operational concepts into its military strategies and capabilities.¹²

China is also a significant force in shaping the global adoption of the Internet of Things (IoT) that has seen an accelerating expansion of internet-connected cyber-physical systems from smart home appliances to networked manufacturing. China accounted for three-quarters of cellular IoT connections worldwide at the end of 2020,¹³ and one estimate projects the country will surpass the United States to become the world's largest IoT market by 2024.¹⁴ Leading Chinese technology companies have collaborated with local governments and state-owned telecoms operators to develop specific and large-scale IoT applications, especially "smart city" systems that supercharge big-data analysis and enhance government surveillance.¹⁵ These IoT systems are attractive to Chinese domestic authorities, some foreign governments, and private entities, which could have significant impacts on global IoT standardization and data and privacy regimes.

Beijing is keen to dominate the next generation of digital technologies by taking a pivotal role in setting technical standards. The China Standards 2035 plan calls for a new generation of information tech-

nology systems and increased Chinese participation in the formulation of international standards for emerging and critical digital technologies including IoT, cloud computing, big data, 5G, and AI.¹⁶ That process, in keeping with the Chinese Communist Party's (CCP) longstanding policy characteristics, has a state-centric, top-down approach which has alarmed American and European policymakers who are concerned about a Chinese "takeover" of standard-setting bodies.¹⁷ China's participation in multilateral institutions has increased significantly. From 2011 to 2020, the number of Chinese-occupied secretariat positions in technical committees or subcommittees in the International Organization for Standardization (ISO) and the International Electrotechnical Commission (IEC) increased by 73 percent and 67 percent, respectively.¹⁸ Chinese nationals have been elected to head the ISO, IEC, and International Telecommunication Union (ITU).¹⁹ China has proposed multiple standards for IoTs within the ISO/IEC framework, many of which have been adopted. The IEC agreed to coordinate standards for the Global Energy Interconnection Initiative, originally proposed by the State Grid Corporation of China (SGCC) to create huge grids of power cables that run between countries and continents, which will directly benefit the Chinese state-owned enterprise.²⁰ During the tenure of ITU secretary-general Houlin Zhao, China signed a memorandum of understanding between its BRI and the ITU's operational efforts, and Huawei has introduced some 2,000 new standard proposals to ITU study groups from 5G to AI.²¹

At the same time, China is pushing to advance its "cyber sovereignty" governance model in international forums. Viewed through a lens of sovereignty and national security, Beijing's vision entails tight control of internet gateways, data localization, and restrictions on online freedom.²² Contrary to the multi-stakeholder model favored by the United States and other Western, democratic states, it promotes multilateral cyber governance cooperation purely between states and creates barriers to free and open internet architecture. China has proposed a Global Data Security Initiative which advocates strong state control over its citizens' personal data.²³ Beijing unveiled a New IP (Internet Protocol) proposal at the ITU²⁴ that could

remake the internet into a Westphalian system of centralized, state-controlled national networks and strengthen authoritarian governments' ability to surveil and control internet activities. At the 2019 UN General Assembly, China supported a successful resolution brought by Russia to establish a committee of experts to consider a new cybercrime treaty²⁵ that competes with the Convention on Cybercrime (Budapest Convention), adopted by the United States and the EU, which aims to protect the rule of law and open internet.

Cyberattacks from China have been a persistent threat to the United States and the EU. Cyber-enabled intellectual property (IP) theft is particularly damaging. In the United States, alleged state-sponsored Chinese cyber industrial espionage is estimated to have breached thousands of American companies and resulted in losses between \$20 billion and \$30 billion annually for the U.S. economy.²⁶ In 2020, Chinese intelligence was accused of targeting the European Medicines Agency to steal documents relating to COVID-19 vaccines and medicines.²⁷ U.S. and European governments have also accused the Chinese government of cyberattacks targeting government and critical infrastructure. The Biden administration recently disclosed details on Chinese state-backed cyberattacks on dozens of U.S. oil and gas pipeline companies in the past decade.²⁸ In July 2021, the United States, the EU, NATO, and others condemned cyberattacks from China on the Microsoft Exchange server.²⁹ Moreover, China's National Intelligence Law requires its citizens and organizations operating in China to "support, assist, and cooperate with state intelligence work."³⁰ Together with the country's National Security Law, Cybersecurity Law, and Data Security Law, it forms the world's most sophisticated system of online control and theoretically allows the Chinese government full access to data within its jurisdiction.³¹ While the Chinese government does not necessarily have unfettered real-time access to all companies' data and Chinese companies have often pushed back against the government's data requests,³² Beijing's recent crackdown on Chinese tech companies sends the message that the CCP is going to assertively exercise these regulatory powers and make sure the companies also serve

the interests of the party and the government.³³ This development raises serious questions over the Chinese state's intention to expand its surveillance and espionage capacity within and beyond its borders through Chinese-built and Chinese-operated digital infrastructure such as 5G networks.

China's Digital Silk Road (DSR), which is part of Xi Jinping's massive Belt-and-Road Initiative (BRI) that promotes Chinese-built and often Chinese-financed infrastructure projects around the world, helps to advance Beijing's digital ambition. Chinese companies have exported AI-enabled surveillance technologies, including facial recognition systems, to more than 60 countries, including repressive governments such as Iran, Venezuela, and Myanmar.³⁴ (It was reported that Huawei employees embedded with cybersecurity forces in Uganda and Zambia intercepted encrypted communications and used cell data to track political opponents.³⁵) Beyond empowering technology-enabled authoritarianism, the proliferation of these and other Chinese-built digital infrastructures and applications through the DSR encourages the adoption of China's model of cyber sovereignty and bolsters Chinese efforts to set global standards for emerging digital technologies.³⁶ The majority of countries that sponsored or supported the 2019 UN Resolution Countering the Use of Information & Communication Technologies for Criminal Purposes are participants in DSR or BRI.³⁷ U.S. and European officials as well as human rights advocates fear the resolution could be used to impose state control of the Internet and criminalize legitimate forms of online expression and uses of secure digital communications. China's digital technology expansion in Africa with AI-powered data projects, often used for political purposes by local authorities, incentivizes African governments to rely on Chinese tech companies for digital solutions and look to Beijing for regulatory justification to advance political control.³⁸

A Values-Based Transatlantic Digital Alliance?

The return of collegial transatlantic relations under President Biden has spurred calls from both the United States and the EU for more cooperation on

dealing with China and its growing power to shape global digital geopolitics. The joint statement from the U.S.-EU Summit in June, while not directly mentioning China, pledged to "drive digital transformation that...protects and promotes critical and emerging technologies and infrastructure."³⁹ The newly formed EU-U.S. Trade and Technology Council (TTC), which will bring together U.S. and EU officials to collaborate on issues from technology standards-setting to ICT security, is premised on a transatlantic approach to counter Beijing's digital ambition, one goal of which is to "promote a democratic model of digital governance." The Washington Declaration agreed to by President Biden and Chancellor Merkel likewise commits Germany and the United States to cooperation in ensuring that technology promotes "freedom rather than repression."⁴⁰

While China's digital authoritarianism is a focal point for increasing cooperation between the United States and its European partners, differences in interests and policy approaches to their respective bilateral relationships with China present challenges to assembling a values-based transatlantic digital alliance. To start, the U.S. analytical premise of great power competition is not readily shared by all European states. Although the EU has designated China as a "systemic rival" and European political leaders have taken steps to end the EU's asymmetric openness to China, they have exercised a high degree of restraint to avoid open confrontation with Beijing. German Chancellor Angela Merkel, who has arguably done more than anyone in shaping the EU's relationship with China in the past decade, has continued to push for a policy of dialogue and engagement. Her decision to prioritize the maintenance of close bilateral economic relations with China over confronting Beijing on human rights or 5G infrastructure security may be grounded in domestic German interests, but she is joined by leaders in other European capitals who prioritize stable relations with Beijing over more assertive diplomacy.

Instead of openly aligning with the United States, the EU's discourse for digital geopolitical competition has centered around "digital sovereignty." It implicitly identifies two poles of contemporary digital

geopolitics: China's authoritarian digital expansion and the dominance of U.S. internet platform companies. Europe's dependency on Chinese and U.S. digital technologies produced a sense of equal suspicion against China and the United States.⁴¹ Europe's perceived need is to wrestle control of its own digital future from both potentialities. German foreign minister Heiko Maas encapsulated this transatlantic divergence when he proclaimed that neither the Chinese nor the American digital model is an option for Europe.⁴²

Besides giving the EU a sense of geopolitical agency⁴³ in a global digital landscape largely dominated by the United States and China, the concept of digital sovereignty attests to the fissure in digital politics between transatlantic partners.

The EU's digital regulatory initiatives present major challenges to U.S. technology giants. The European Court of Justice striking down both the Safe Harbor agreement and the Privacy Shield regulations covering EU-U.S. data transfers has fundamentally reshaped the legal framework for data transfer from European users to U.S. servers. While negotiations between the Biden administration and the EU to create a new pact for transatlantic data transfers trudge on and the European Commission has issued updated regulatory guidance,⁴⁴ businesses have had to rely on alternatives to ensure continued data flows in an uncertain legal environment.⁴⁵ Brussels' focus on the United States over data transfer issues also stands in contrast to its relative silence on data transfers to China, which a 2016 European Parliament report found to "have tended to be neglected, despite the increasing use of Chinese products (e.g. software and devices) and services (e.g. social networks and e-commerce websites) entailing a very large volume of data exchange."⁴⁶ It remains to be seen how the EU will respond to China's new Data Security law that expands the Chinese government's power to retaliate against foreign jurisdictions that create or implement "discriminatory measures" against Chinese investment or

trade in data and technology.⁴⁷

The EU has also sought new legal instruments to curb the growth and market power of American tech giants. Its proposed Digital Services Act (DSA) and Digital Markets Act (DMA) could impose among the world's most stringent regulations on U.S. platform companies and threaten them with huge fines and potential breakups.⁴⁸ Yet Germany, France, and the Netherlands were unsatisfied by the new rules and called for more anti-trust enforcement to crack down on dominant platforms.⁴⁹ Furthermore, the EU delayed but has not scrapped its plan to introduce a digital services tax, which the United States has found "unfair and targeted against U.S. companies."⁵⁰ While the Biden administration has moved closer towards the EU's positions on data governance, platform regulation, and digital taxation, these issues remain contentious for transatlantic digital cooperation.

Germany's persistent dual dependency on the Chinese market on the one hand and essential U.S. digital technologies on the other presents another major obstacle to transatlantic digital collaboration. Despite calls from some leading German politicians to diversify industrial supply chains away from China,⁵¹ an overwhelming majority of German businesses in China are committed to maintaining or increasing their investments in the country. Many of them see great business opportunities in innovative technologies and digital solutions⁵² underpinned by Beijing's strong development support for emerging technologies and high demand for innovative applications from adaptive Chinese consumers. This extensive presence of German companies in China and their determination to profit from the country's digital transformation drive the growing necessity for those German companies to integrate or harmonize with Chinese digital ecosystems, with all subsequent legal and political liabilities.⁵³

Hence, German businesses increasingly find themselves straddling two different and progres-

sively less compatible digital spheres. Both U.S. efforts to disentangle advanced technology supply chains with China, such as export controls on advanced semiconductors and blacklisting Chinese entities, and the Chinese government's increasing employment of economic coercion and corporate censorship such as its corporate social credit system⁵⁴ pose significant challenges to German business in China. Thus, it is likely that deeply entrenched German economic dynamics will continue to constrain Germany's will to cooperate with the United States on digital governance issues. The country's long-awaited political compromise that produced the IT Security Act 2.0 (*Zweites Gesetz zur Erhöhung der Sicherheit informationstechnischer Systeme*),⁵⁵ which created a formal IT vendor screening mechanism but still refrained from banning Huawei from German 5G networks, is a prime example of Berlin's dilemma between adopting a clear, value-based digital security posture and staving off Beijing's threat of economic retaliation.⁵⁶ German companies, especially automakers, would be directly impacted by such retaliation.⁵⁷

German and EU responses to digital strategic competition with China also lack a strong security dimension. European efforts to strengthen digital security primarily focus on the privacy and economic consequences of undesirable technology transfers and rely mainly on trade defense instruments. China's civil-military fusion strategy which incorporates joint research and development by many Chinese startups, research facilities, and universities in partnership with foreign institutions has gathered far less political attention in Europe than in the United States. There's no EU equivalent to the U.S. Department of Defense list of Communist Chinese military companies (CCMC) or the Bureau of Industry and Security (BIS) entity list. And while the United States is working to prevent the People's Liberation Army's (PLA) acquisition of sensitive technologies through research collaboration with Chinese partners and patent theft from American universities and research facilities,⁵⁸ Germany

and many other European governments have not publicly acknowledged these risks.

Finding Practical Ways Forward

An effective transatlantic digital agenda must consider both the United States' and Europe's aspirations as well as their differences in dealing with China's capabilities and influence. As digitalization continues to diminish physical boundaries for global trade and national security, traditional policy tools need to be updated and coordinated between partners. The establishment of the TTC, which will include both high-level political consultations and technical working groups for trade defense instruments, technology standards-setting, innovation promotion, and delivering global public goods,⁵⁹ commits Washington and Brussels to sustained dialogues on a wide range of policy instruments and objectives that are essential elements to managing a global digital competition with China.

It is important to acknowledge, however, that the TTC is not a panacea for resolving all transatlantic conflicts over digital and emerging technology regulations. Existing channels of transatlantic policy dialogues should be maintained alongside new TTC initiatives. Bilateral platforms between the United States and individual EU members on cybersecurity and ICT supply chain resilience, which are national prerogatives, are especially helpful. They create opportunities for information sharing and political consultation between the United States and EU members with differing socio-economic needs and digital capacities, help to encourage digital policy convergence between EU member states, and could contribute to plurilateral and multilateral cooperation on digital governance issues with a wider set of international partners. For example, the U.S.-Germany Cyber Bilateral Meeting, held annually during the second Obama administration, was a useful channel for American-German cooperation on critical infrastructure protection, setting global standards, strengthening support for the multistakeholder

model for internet governance at the UN, and facilitating potential NATO-EU cooperation in the context of hybrid threats.⁶⁰

Collaboration on digital issues between the United States and the EU should maximize opportunities for open-minded exchanges of concerns and potential remedies in the policy development stage. While parallel U.S. and EU legislative efforts on issues such as platform content moderation are promising signs of convergence in transatlantic regulatory preferences, they are no guarantees that their digital policies will become more closely aligned. The U.S. Congress is currently considering several pieces of legislation, the Platform Accountability and Consumer Transparency Act (PACT Act), Eliminating Abusive and Rampant Neglect of Interactive Technologies Act (EARN IT Act of 2020), and Online Consumer Protection Act (OCPA) that have the same approach to regulating online content intermediaries as the EU's DSA.⁶¹ But some in the EU are calling for more ambitious measures including algorithm audit by EU authorities⁶² that could be objectionable to U.S. platform companies. Standards and regulatory procedures that have a transatlantic impact should ideally be developed in a way that builds transatlantic compatibility, trust, and confidence. The ongoing struggle to create a legally sound U.S.-EU data transfer pact under strict guidelines of the EU's General Data Protection Regulation (GDPR) is a good example of this need. Thus, it would be highly beneficial to include U.S.-EU and U.S.-German legislative dialogues on digital policy in regular transatlantic consultations.

The United States, Germany, and the EU should better coordinate their respective technological industrial policy efforts to strengthen ICT supply chains and foster strategic interdependence toward an innovative and resilient transatlantic digital ecosystem. Diversifying semiconductor chip manufacturing away from potential chokepoints in Asia while restricting the PLA's access to advanced semiconductors requires significant investments and compatible policy approaches on both sides of the Atlantic to avoid unnecessary tensions over government subsidies and conflicts over export control measures. Germany's proposed state aid

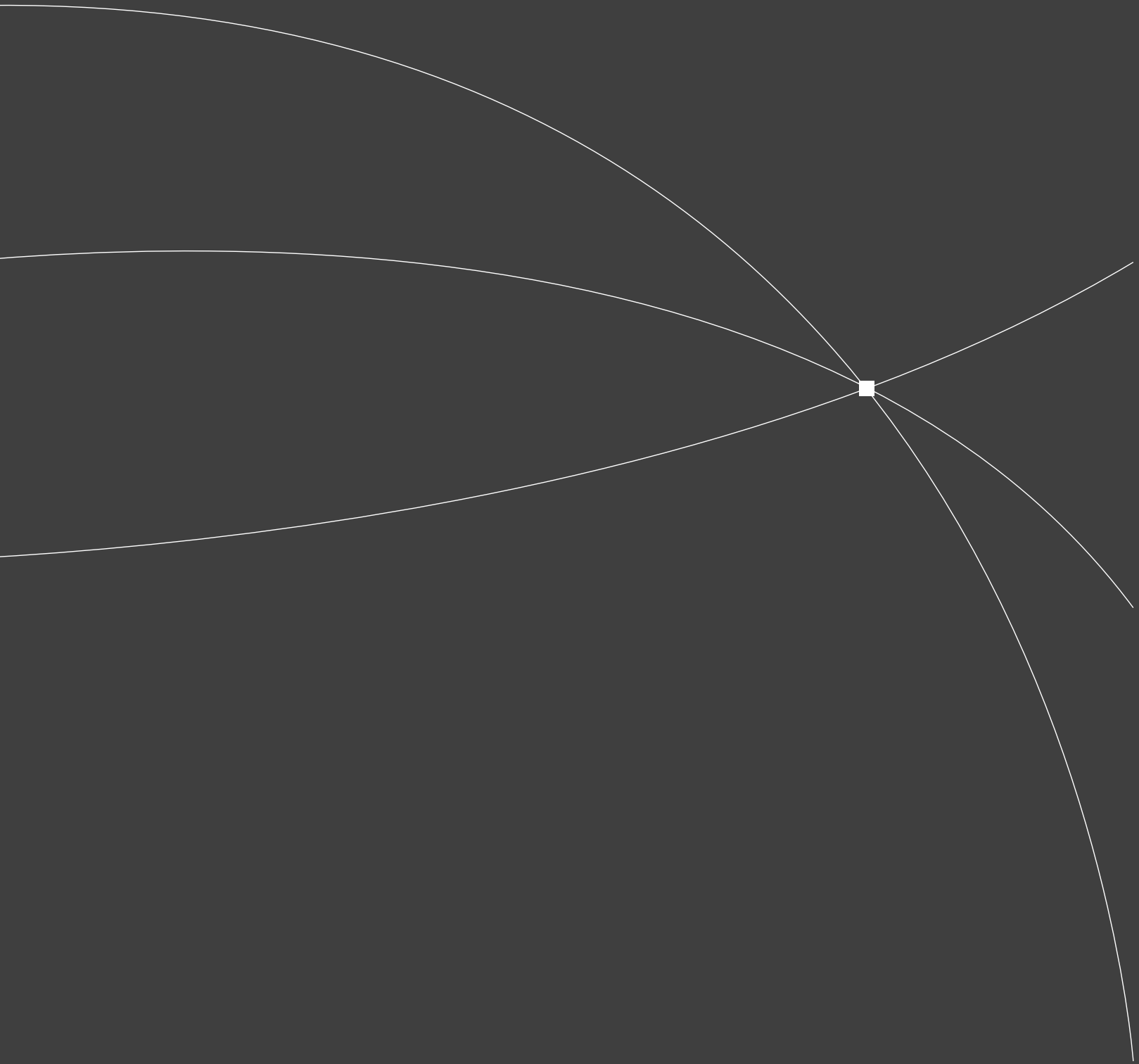
for semiconductor manufacturing⁶³ and the country's potential host of a semiconductor plant for the world's largest contract chipmaker TSMC,⁶⁴ for instance, could form a central part of transatlantic collaboration on next-generation chip design and production. Similarly, U.S. government investment in Open Radio Access Network (O-RAN) architecture technologies and applications should seek to reconcile with the EU's 5G investments in proprietary technologies from its indigenous companies Nokia and Ericsson and avoid creating separate cellular network ecosystems. While working toward an updated multilateral export control approach, transatlantic partners should also enhance information sharing regarding untrustworthy vendors, investment screening cases, and IP infringements.

A transatlantic alliance on digital issues should avoid the rhetoric of an ideological crusade against the CCP and instead foster cooperation with a diverse range of international partners. Digital technologies are rapidly transforming large parts of the developing world. From Southeast Asia to South America, large populations of consumers are hungry for new digital infrastructure and applications, and governments are eager to employ digital tools for public administration. Examples such as Huawei's submarine cables connecting Southeast Asia⁶⁵ and the proposed deployment of Chinese facial recognition systems for the Brazilian police⁶⁶ are important reminders that the United States and Europe need to step up efforts to engage important "digital swing states" to counter Beijing's efforts to draw countries into its digital ecosystem and promote authoritarian digital practices and its internet governance model. Alternatives to China's DSR like the U.S.-led Blue Dot Network and other infrastructure initiatives with digital components, including A Globally Connected Europe and the G7 Build Back Better World (B3W) need sufficient funding. The transatlantic partners must consult and coordinate with experienced regional infrastructure partners such as Japan when implementing these digital infrastructure investments to avoid turning the well-intentioned message for democratic digital governance into an ideological purity test for recipient governments.

NOTES

- ¹ Arjun Kharpal, "Race for 5G heats up: China's next-generation networks go online for as low as \$18," CNBC, November 1, 2019.
- ² "China rolls out 916,000 5G stations, making up 70% of global total," *Global Times*, July 13, 2021.
- ³ Cheng Ting-Fang and Laily Li, "Huawei shows off patent progress despite US pressure," *Nikkei Asia Review*, March 16, 2021.
- ⁴ Stu Woo and Dan Strumpf, "Huawei Loses Cellular-Gear Market share Outside China," *The Wall Street Journal*, March 7, 2021.
- ⁵ Thomas Duersterberg, "U.S. Efforts To Counter Huawei 5G Dominance Making Progress: Open RAN Playing Growing Role," *Forbes*, March 17, 2021.
- ⁶ Sachin Waikar, "AI Report: Competition Grows Between China and the U.S." Stanford Institute for Human-Centered Artificial Intelligence, March 8, 2021.
- ⁷ "China's city of Tianjin to set up \$16-billion artificial intelligence fund," *Reuters*, May 17, 2018.
- ⁸ Orange Wang, William Zheng, Jun Mai, and Echo Xie, "Five-year plan: China moves to technology self-sufficiency," *South China Morning Post*, 30 October 2020. Online.
- ⁹ Paul Mozur, "Beijing Wants A.I. to Be Made in China by 2030," *The New York Times*, July 20, 2017.
- ¹⁰ Daitian Li, Tony W. Tong, and Yangao Xiao, "Is China Emerging as the Global Leader in AI?" *Harvard Business Review*, February 18, 2021.
- ¹¹ Paul Mozur, "Inside China's Dystopian Dreams: A.I., Shame and Lots of Cameras," *The New York Times*, July 8, 2018.
- ¹² Michael Dahm, "Chinese Debates On The Military Utility Of Artificial Intelligence," *War On The Rocks*, June 5, 2020.
- ¹³ John Lee, "The Connection of Everything: China and the Internet of Things," *Mercator Institute for China Studies*, June 24, 2021.
- ¹⁴ "China to become world's largest IoT market in 2024: report," *XinhuaNet*, January 16, 2021.
- ¹⁵ Robert Muggah, "'Smart' Cities Are Surveilled Cities," *Foreign Policy*, April 17, 2021.
- ¹⁶ Arjun Kharpal, "Power is 'up for grabs': Behind China's plan to shape the future of next-generation tech," CNBC, April 26, 2020.
- ¹⁷ Naomi Wilcon, "China Standards 2035 and the Plan for World Dominance—Don't Believe China's Hype," *Council on Foreign Relations*, June 3, 2020.
- ¹⁸ The US-China Business Council, "China in International Standards Setting—USCSC Recommendations for Constructive Participation," February 2020.
- ¹⁹ Xirui Li and Dingding Chen, "Should the West Fear China's Increasing Technical Standard Setting?" *The Diplomat*, April 15, 2021.
- ²⁰ James Kynge and Nian Liu, "From AI to facial recognition: how China is setting the rules in new tech," *Financial Times*, October 7, 2020.
- ²¹ Kristen Cordell, "The International Telecommunication Union: The Most Important UN Agency You Have Never Heard Of," *Center for Strategic & International Studies*, December 14, 2020. .
- ²² Harriet Moynihan and Champa Patel, "Restrictions on online freedom of expression in China—The domestic, regional and international implications of China's policies and practices," *Chatham House*, March 17, 2021.
- ²³ Chun Han Wong, "China Launches Initiatives to Set Global Data-Security Rules," *The Wall Street Journal*, September 8, 2020.
- ²⁴ Madhumita Murgia and Anna Gross, "Inside China's Controversial mission to reinvent the internet," *Financial Times*, March 27, 2020.
- ²⁵ Allison Peters, "Russia and China Are Trying to set the U.N.'s Rules on Cybercrime," *Foreign Policy*, September 16, 2019.
- ²⁶ James Andrew Lewis, "How Much Have the Chinese Actually Taken?" *Center for Strategic & International Studies*, March 22, 2018.
- ²⁷ "Significant Cyber Incidents." *Center for Strategic & International Studies*, Accessed August 9, 2021.
- ²⁸ Nicole Perloth and David E. Sanger, "China Breached Dozens of Pipeline Companies in Past Decade, U.S. Says," *The New York Times*, July 20, 2021.
- ²⁹ Stuart Lau, "Europe joins US to condemn cyberattacks from China," *Politico.EU*, July 19, 2021.
- ³⁰ Samantha Hoffman and Elsa Kania, "Huawei and the ambiguity of China's intelligence and counter-espionage laws," *Australian Strategic Policy Institute*, September 13, 2018. .
- ³¹ Samantha Hoffmann, "The U.S. China Data Flight Is Only Getting Started," *Foreign Policy*, July 22, 2021.
- ³² Samm Sacks, "Data Security and U.S.-China Tech Entanglement," *Lawfare*, April 2, 2020.
- ³³ David Chau, "China's crackdown on 'powerful' tech giants may be a 'terrible own goal,'" *ABC News Australia*, August 18, 2021.
- ³⁴ "China Exports AI Surveillance tech to over 60 countries: report," *Nikkei Asia Review*, December 16, 2019.
- ³⁵ Joe Parkinson, Nicholas Bariyo, and Josh Chin, "Huawei Technicians Helped African Governments Spy on Political Opponents," *The Wall Street Journal*, August 15, 2019.
- ³⁶ Joshua Kurlantzick, "Assessing China's Digital Silk Road: A Transformative Approach to Technology Financing or a Danger to Freedoms?" *Council on Foreign Relations*, December 18, 2020.
- ³⁷ Eleonore Pauwels, "The Road Towards Cyber-Sovereignty Passes Through Africa," *Konrad Adenauer Stiftung*, December 29, 2019.
- ³⁸ Khwezi Nkwanyana, "China's AI deployment in Africa poses risks to security and sovereignty," *Australian Strategic Policy institute*, May 5, 2021.
- ³⁹ The White House, *U.S.-EU Summit Statement—Towards a Renewed Transatlantic Partnership*, June, 15 2021.
- ⁴⁰ The White House, *Washington Declaration*, July 15, 2021.
- ⁴¹ Matthew Karnitschnig and Janosch Delcker, "German minister defends criticism of 'untrustworthy' US as backlash grows," *Politico.EU*, November 25, 2019.
- ⁴² Auswärtiges Amt, Rede von Außenminister Heiko Maas zu Europäischer Digitaler Souveränität anlässlich der Eröffnung der Smart Country Convention des Bundesverband Informationswirtschaft, Telekommunikation und neue Medien e. V. (Bitkom), October 27, 2020.
- ⁴³ Tyson Barker, "Biden's Plan to Cooperate With Europe on Tech," *Foreign Policy*, June 16, 2021.
- ⁴⁴ Oliver Bevan, Daniel Mikkelsen, Henning Soller, and Malin Strandell-Jansson, "International personal-data transfer amid regulatory upheaval," *McKinsey & Company*, March 3, 2021.
- ⁴⁵ Jonathan Keane, "With Biden in the White House, EU officials are pushing hard for a new data-sharing pact with the U.S." *CNBC*, April 19, 2021.
- ⁴⁶ European Parliament, *At a glance—Personal data transfers to China*, June 20, 2016.
- ⁴⁷ Sherry Gong and Mark Parsons, "China's Data Security Law: A new version for the regulation of a digital economy," *JDSUPRA*, June 22, 2021.
- ⁴⁸ Javier Espinoza, "EU warns that it may break up Big Tech companies," *Financial Times*, December 15, 2020.

- 49 Pieter Haeck, "Paris and Berlin Urge EU to crack down on Big tech," Politico.EU, May, 27, 2021.
- 50 Daniel Michaels, "Yellen Says EU Delay on Digital Tax Helps Global Corporate Tax Deal," *The Wall Street Journal*, July 13, 2018.
- 51 "German econ minister tells firms to diversify beyond China in Asia," *Reuters*, October 19, 2020.
- 52 Wendy Wu, "German firms upbeat about outlook for China despite US decoupling fears, survey finds," *South China Morning Post*, February 3, 2021.
- 53 Maximilian Mayer, "Europe's Digital Autonomy and Potentials of a U.S.-German Alignment toward China," American Institute for Contemporary German Studies, December 16, 2020.
- 54 U.S. Library of Congress, Congressional Research Service, *China's Corporate Social Credit System*, by Michael D. Sutherland, IF11342, January 17, 2020.
- 55 Beryl Thomas, "What Germany's new cyber security law means for Huawei, Europe, and NATO," European Council on Foreign Relations, February 5, 2021.
- 56 Setting high standards for IT systems has its benefits over politically motivated exclusions. It helps to maintain market openness and minimizes discrimination. While the effect of Germany's IT security law is not yet clear, the intentions and considerations behind the German government's approach are well documented.
- 57 Katrin Bennhold and Jack Ewing, "In Huawei Battle, China Threatens Germany 'Where It Hurts': Automakers," *The New York Times*, January 16, 2020.
- 58 Jane Lanhee Lee, Daphne Psaledakis, "U.S. doubles down on protecting university research from China," *Reuters*, February 28, 2021.
- 59 European Commission, "EU-US launch Trade and Technology Council to lead values-based global digital transformation," June 15, 2021.
- 60 Federal Foreign Office (Auswärtiges Amt), "Joint Statement on U.S.-Germany Cyber Bilateral Meeting," March 24, 2016.
- 61 Juraj Majcin, "EU-US tech cooperation: Strengthening transatlantic relations in data-driven economies," Atlantic Council, June 16, 2021.
- 62 "Use the Digital Services Act to make democracy prevail over platform interests, RSF tells EU," Reporters Without Borders, June 2, 2021.
- 63 "Germany ready to double state aid for semiconductor industry-minister" *Reuters*, July 1, 2021.
- 64 Cheng Ting-Fang and Laily-Li, "TSMC eyes Germany as possible location for first Europe chip plant," *Nikkei Asia Review*, July 26, 2021.
- 65 Bastian Giegerich, Alexander Neill, Camille Lons, Nawafel Shehab, and Scott Malcomson, "China's Digital Silk Road: Integration into National IT Infrastructure and Wide Implications for Western Defense Industries," International Institute for Strategic Studies, June 14, 2021.
- 66 Aiuri Rebello, "Bancada do PSL vai à China conhecer sistema que reconhece rosto de cidadãos," *Folha De S. Paulo*, January 16, 2019.



APPENDIX

China as Digital Superpower: An American-German Workshop on Digital Infrastructure and Digital Security

December 8, 2020

Today's China has grown into a digital superpower alongside the United States with its central role in global digital technology manufacturing, innovation, and increasing market share. This has created a major new front in geostrategic competition. While internet protocols, hardware design and manufacturing, software development and deployment, and services and standards have been on a trajectory toward ever closer integration in the past two decades, intensifying Sino-U.S. rivalry has pushed both governments to disentangle their technology interdependence. A torrent of recent U.S. legislation and the Trump administration's policies employ measures intended to restrict China's access to U.S. technologies, reduce U.S. exposure to Chinese digital services, scrutinize corporate financing, and limit talent exchange.

Washington launched a global campaign to curb adoption of Chinese-built or -maintained digital infrastructure including 5G base stations, cloud data centers, and undersea cables. In response, the Chinese government has enacted retaliatory measures, doubled down on state subsidies to accelerate the development of domestic alternatives, and hardened its long-standing practice of domestic censorship as well as state-sponsored surveillance. Beijing also stepped up efforts to lead global standard-setting for critical and emerging technologies.

These policy choices by Washington and Beijing are often justified by a broad definition of national security that has serious implications for the open digital architecture that has fueled tech-sector growth and the increasingly important cross-border trade of digital technologies and data. Some of these policies also have wide-ranging extraterritorial implications and many countries are concerned they would be pressured to choose sides in an ensuing digital Cold War between the world's two digital superpowers.

In Germany and the EU, there is a growing realization that their own digital competitiveness and China's digital ascendancy have long been overlooked. Yet Europeans are not content to be pressured or courted by Washington and Beijing. The EU's newfound aspiration for digital autonomy aims to change a culture of complacency on digital technologies, as the bloc has embarked on a course to pursue regulatory leadership. The EU increasingly sees digital technologies not just through the lenses of economic benefits and privacy, but also national security and geopolitical consequences. It is scrutinizing both U.S. tech giants and Chinese investments.

However, the EU's drive toward digital autonomy faces challenges because of its dependence on both the U.S. and China, which together dominate global digital technology supply chains and ecosystems. The continuing Sino-U.S. rivalry also makes European policy choices on digital infrastructure and digital security a diplomatic balancing act. The German government's procrastination over its 5G infrastructure policy perfectly illustrates this predicament. Some European politicians and industry experts are already advocating going beyond defensive postures (protecting privacy and deterring cyberattacks and cyber espionage and bolstering its manufacturing and regulatory capacity) to advance its economic and strategic interests in the face of faltering global technology supply chains, fragmenting technology ecosystems, and intensifying technology competition.

This workshop surveys top priorities and concerns in Berlin and Washington regarding digital challenges from China and how they are being translated into policy initiatives to rethink digital infrastructure and strengthen digital security on both sides of the Atlantic. With the insights and expertise of our participants, we address how the United States and Germany (as well as the EU) can best manage these challenges while facing a China that increasingly aspires to leadership in global digital innovation and transforming digital governance to suit Beijing's values and interests.

Speakers

Stephen C. Anderson is the Acting Deputy Assistant Secretary for International Communications and Information Policy in the Bureau of Economic and Business Affairs. In this capacity, he leads development of international Internet, data, and privacy policies and related negotiations with foreign governments.

Previously, Mr. Anderson was Director of the Office of Specialized and Technical Agencies in the State Department's Bureau for International Organization Affairs. In that role, he was responsible for U.S. relations with over 40 specialized UN agencies, funds and programs, and was the lead U.S. negotiator of the successful U.S. effort to reform the Universal Postal Union's remuneration system for the ecommerce era.

In 2017, Mr. Anderson was the State Department Visiting Fellow at the Chicago Council on Global Affairs. From 2014 to 2017, he served as Deputy Chief of Mission and Chargé d'affaires at the U.S. Embassy in Antananarivo, Madagascar, where he helped restore full diplomatic relations after a 2009 coup. He served multiple tours in Iraq and Afghanistan focused mainly on the management of provincial reconstruction teams.

Mr. Anderson has also been posted to Mexico, Germany, Guatemala, Argentina, and Italy since joining the Foreign Service in 1994. He is the recipient of numerous State Department superior and meritorious honor awards.

Dr. Melissa K. Griffith is a Public Policy Fellow with the Science and Technology Innovation Program (STIP) at the Woodrow Wilson International Center for Scholars; a Non-Resident Research Fellow at the

University of California, Berkeley's Center for Long-Term Cybersecurity (CLTC); and an Adjunct Assistant Professor at Georgetown's Center for Security Studies (CSS). She works at the intersection between technology and national security with a specialization in cybersecurity.

Griffith's current book project investigates how relatively small countries, with limited resources, have

become significant providers of national cyber-defense for their populations alongside far larger states such as the U.S. Her work sheds important light on the components and dynamics of cyber power and cyber conflict, as well as the vital role that public-private cooperation and both security and economic policy play in cyber-defense. Concurrent research projects examine (1) the national security implications of 5G, (2) collective defense and resilience in cyberspace, and (3) emerging technologies and great power competition.

Griffith holds a Ph.D. in Political Science from the University of California, Berkeley (2020); an M.A. in Political Science from the University of California, Berkeley (2014); and a B.A. in International Relations from Agnes Scott College (2011).

Dr. Maximilian Mayer is Junior-Professor of International Relations and Global Politics of Technology at University of Bonn. He was assistant professor at the University of Nottingham Ningbo China (2019-2020). He is also research fellow at Renmin University Beijing (2018-2020), worked as Research Professor at Tongji University, Shanghai (2015-2018) and was senior researcher at the Munich Center for Technology in Society, Technical University Munich (2018-2019). Maximilian worked at the Bonn University's Center for Global Studies (CGS) as managing assistant and senior fellow (2009-2015).

Maximilian holds a master's degree from Ruhr University Bochum and obtained his PhD at Bonn University. His research interests include the global politics of science, innovation, and technology; China's foreign and energy policy; global energy and climate politics; theories of International Relations.

Maximilian presents regularly at international conferences, publishes his research in peer-reviewed journals, and has authored seven books including *China's Energy Thirst: Myth or Reality?* (2007 together with Xuewu Gu), *Changing orders: transdisciplinary analysis of global and local realities* (2008, coeditor), two-volumes on *The Global Politics of Science and Technology* (2014, lead editor). He is coeditor of *Art and Sovereignty in Global Politics* (Palgrave, 2016) and edited *Rethinking the Silk-Road: Chinas Belt and Road Initiative and Emerging Eurasian Relations* (Palgrave, 2018). Maximilian was visiting scholar at Harvard Kennedy School, Program on Science, Technology and Society, and section co-chair of STAIR (Science, Technology, Arts and international relations) of the International Studies Association (2015-2017) and STAIR program chair (2014-2015).

Competition and Compromise: The Biden Administration's Emerging China Policy and the Prospect for Transatlantic Cooperation

April 28, 2021

After four years of tumultuous U.S. foreign policy under the Trump administration, the Biden presidency is aiming to bring a more strategic and disciplined approach, especially with regard to China. Members of President Biden's foreign and security policy team have steadily laid out their vision of managing the increasingly competitive relationship between the United States and China. Biden's secretary of state Antony Blinken described China in his Senate confirmation hearing as the country that "poses the most significant challenge" to the United States. Other cabinet members, including defense secretary Lloyd Austin and treasury secretary Janet Yellen, have pledged to adopt a firm stance on China and the topic has featured in the first contacts those cabinet members have had with their German counterparts.

There will be significant policy continuity in the new administration, which sees China as a strategic competitor and will continue to rebalance U.S. military assets toward Asia and strengthen democratic alliances. Washington is likely to deescalate bilateral economic tit-for-tat with China while pressuring Beijing to abide by international trade rules and attempting to organize a coalition of developed democracies to enhance leverage. On the other hand, Biden has made it clear that his administration must prioritize pressing domestic issues such as the pandemic and the economic recovery, and there are indications that his trade and industrial policy may differ significantly from that of liberal trade traditionalists.

Managing the economic consequences of the Sino-U.S. rivalry will remain one of the biggest challenges for the Biden administration. Washington faces the difficult task of balancing America's deeply rooted economic interests, its goal to stay ahead of competition in crucial and emerging industries, and its efforts to reassemble a global liberal trade alliance.

China's expanding strategic footprint presents another key test for the Biden administration. Its Belt and Road Initiative, buttressed by robust Chinese financing, digital and surveillance technologies, and newly invigorated health diplomacy, challenges U.S. influence and undermines democratic governance from the Pacific to the Atlantic. Beijing's maritime ambition in the South China Sea threatens to disrupt the balance to power in the region for four decades as well as U.S. and allies' interests there. While Biden has committed to strengthening old alliances and building new coalitions to deal with these challenges, China has been actively recruiting partners of its own, attracting them with trade and investment incentives and restraining them with threats of economic coercion.

The Biden administration's China policy is eagerly anticipated by its European allies with a mixture of relief that the confrontational tone will diminish and trepidation about Washington's expectations of the EU and key member states like Germany. While the EU has underscored its readiness for a transatlantic dialogue on China with the Biden administration, the EU's agreement in principle on the Comprehensive Agreement on Investment (CAI) with China at the end of the German presidency sparked fresh doubts about the prospect of a renewed transatlantic partnership to deal with common challenges posed by China. The CAI also ignited a debate within the EU, especially in Germany, with some voices questioning the direction of its China policy and how to respond to Washington's overture.

This workshop assesses U.S. policy toward China in the early days of the Biden administration and discuss the prospect for transatlantic cooperation. How is the administration translating into policy its campaign commitments with respect to China? Has the EU-China CAI or other recent European devel-

opments affected official US thinking? What key areas are emerging for transatlantic cooperation regarding China in the next four years? As the geopolitical center stage shifts to the Indo-Pacific, can Germany and the EU be effective partners with the United States in that region?

Speakers

Volker Stanzel is a retired German diplomat who served from 1979 to 2013. He currently teaches Politics of Memory at the Hertie School of Governance in Berlin and heads a project on Diplomacy and Artificial Intelligence at the German Institute for International and Security Affairs (SWP) in Berlin, of which he is a Senior Distinguished Fellow.

In the German Foreign Service, he held posts as Political Director (2007-2009), Ambassador to China (2004-2007) and to Japan (2009-2013), Director General for Political Affairs (2002-2004), Asia Director (2001-2002), and Director for Civilian Use of Nuclear Energy (1999-2001). From 1995 to 1998, he worked with the Social Democratic Party in the German Bundestag, and in 1998-1999 he was a Fellow with the German Marshall Fund of the United States in Washington, D.C.

After retiring, Stanzel taught at Claremont McKenna College and the University of California Santa Cruz in 2014, at Free University in Berlin in 2015, and at Dokkyo University in Japan in 2016. He is President of the Association of German-Japanese Societies, a Council Member to the European Council on Foreign Relations, Board Member of the Academic Confucius Institute at Goettingen University, and was Vice President of the German Council on Foreign Relations in Berlin in 2018-2019.

Susan A. Thornton is Visiting Lecturer in Law at Yale Law School and Senior Fellow at the Paul Tsai China Center. In 2018, she retired from the State Department after a 28-year diplomatic career focused primarily on East and Central Asia. In leadership roles in Washington, Thornton worked on China and Korea policy, including stabilizing relations with Taiwan, the U.S.-China Cyber Agreement, the Paris Climate Accord and led a successful negotiation in Pyongyang for monitoring of the Agreed Framework on denuclearization.

In her 18 years of overseas postings in Central Asia, Russia, the Caucasus and China, Thornton's leadership furthered U.S. interests and influence and maintained programs and mission morale in a host of difficult operating environments. Prior to joining the Foreign Service, she was among the first State Department Fawcett Fellows and served from 1989–90 at the U.S. Consulate in Leningrad. She was also a researcher at the Foreign Policy Institute from 1987–91. Thornton holds degrees from the National Defense University's Eisenhower School, the Johns Hopkins School of Advanced International Studies, and Bowdoin College. She speaks Russian, Mandarin Chinese and French, is a member of numerous professional associations and is on the Board of Trustees for the Eurasia Foundation.

Gunnar Wiegand has been Managing Director for Asia and the Pacific of the European External Action Service (EEAS) since January 2016.

He is the EU's Senior Official for the Asia Europe Meetings (ASEM) as well as for the EU-ASEAN relations. In addition, he is the EU's Chief Negotiator for the new EU-Japan Strategic Partnership Agreement.

Before assuming this function he was Deputy Managing Director Europe and Central Asia since

September 2015 and Director Russia, Eastern Partnership, Central Asia and OSCE since 2011 at the EEAS. In this function he has been the EU's Chief Negotiator for the Association Agreements with Moldova, Georgia and Armenia, as well as the Enhanced Partnership and Cooperation Agreement with Kazakhstan. He also negotiated the EU-Ukraine Association Agenda, and was the EU Coordinator of the EU-Russia Partnership for Modernisation.

Before this Gunnar Wiegand had worked in various functions related to external relations and trade policy at the European Commission since 1990, including as Desk Officer for external aspects of German unification, as Policy Assistant of the Director-General for Trade Policy, as Spokesman for External Relations to Commissioner Chris Patten until 2002, as Head of Unit, first for Relations with the United States and Canada (2002-2006) and then for Relations with Russia and the Northern Dimension (2006-2008). In 2008 he was appointed Director for Eastern Europe, Southern Caucasus and Central Asia at the European Commission's External Relations Directorate-General.

Prior to working for EU Institutions Gunnar Wiegand worked at IRELA the Institute of European Latin American Relations in Madrid (1985-1987) and at the Friedrich Naumann Foundation in Bonn (1987-1990).

Expanding the Transatlantic Toolbox for Economic and Strategic Competition with China: Export Control, Foreign Subsidy Rules, and Investment Screening

June 17, 2021

As calls for more methodical and coherent policy measures to manage economic and strategic competition with China continues to grow across the Atlantic, both the United States and the European Union are reshaping and expanding policy instruments with the aim to ensure fair market competition, safeguard intellectual properties in critical and emerging technologies, and mitigate potential threats to national security.

In the United States, the Foreign Investment Risk Review Modernization Act of 2018 (FIRRMA) significantly broadened the jurisdiction of the Committee on Foreign Investment in the United States (CFIUS). In the same year the Export Control Reform Act of 2018 gave the U.S. executive branch broad freedom to restrict Chinese access to “emerging and foundational technologies” when government intervention is “essential to the national security of the United States.” The Trump administration subsequently imposed export controls on AI software, jet engines, and equipment for manufacturing semiconductors. The Biden administration has largely maintained these measures, and the U.S. Department of Commerce has expanded its lists of targeted Chinese entities. Driven by a strong bipartisan consensus on the need to strengthen U.S. strategic options toward China, both the Biden administration and Congress are seeking closer coordination with the EU.

The European Union in parallel has been developing its own regulations. In March 2019, it created a foreign investment screening mechanism to exchange information among EU member states on investments from non-EU countries that may affect security or public order, which went into force in October 2020. This was followed by the May 2021 adoption of the new EU regulation on the Union regime for export controls of dual use goods. In May 2021, the European Commission also proposed new legislation to crack down on market-distorting subsidies from foreign governments; such rules would have to be approved by the European Parliament and EU member states. These new tools significantly expand the toolkit in the EU’s economic competition with China.

Germany has the EU’s most extensive trade and investment relationship with China. It exports the most to China and invests more than its European peers in China but is also most directly vulnerable to Chinese retaliation. The effectiveness of the new EU measures will depend therefore on how effectively Berlin implements the new regulatory directives. This will be closely followed by many other member states and could shape the EU’s actions more broadly. At the same time, Germany’s caution about jeopardizing its highly profitable economic relationship with China continues to temper new national and European initiatives to challenge China as an “economic competitor” and “systemic rival,” even as the German government has incrementally tightened its investment screening rules and members from all mainstream political parties in the German Bundestag now call for a change of course in the country’s bilateral relations with Beijing.

Effective policy-making to manage economic and strategic competition with China needs a combination of tools as well as close coordination between the United States, the EU, and its member states, especially Germany. This presents great opportunities to modernize rule-based competition in the international trade system, advance U.S.-EU leadership in critical and emerging technologies, and reorganize the global supply chains to mitigate national security threats related to heightened strategic competition with

China. It is important that the transatlantic partners manage their differences carefully through persistent dialogues at all levels and expand information-sharing. It also presents the risk of transatlantic frictions, if the United States is more likely to take robust steps with its investment screening and export controls to address national security concerns regarding China, while the EU sticks closer to an open market approach.

This workshop assesses recent policy developments on export control, foreign subsidy rules, and investment screening, in the United States, Germany, and the EU. Are these tools sufficient for managing the growing economic and strategic competition with China? What are the areas ripe for transatlantic policy coordination and what specific compromises would be required? How should the United States and the EU approach their differences regarding the purpose, scope, and deployment of these policy tools?

Speakers

Dr. Mary E. Lovely is senior fellow at the Peterson Institute and professor of economics and Melvin A. Eggers Faculty Scholar at Syracuse University's Maxwell School of Citizenship and Public Affairs, where she combines interests in international economics and China's development. During 2011–15, she served as coeditor of the *China Economic Review*. Her current research projects investigate the effect of China's foreign direct investment policies on trade flows and entry mode, the relationship between proximity to export markets and cross-city wage variation, and the influence of Chinese tariff reductions on labor shares of value in its manufacturing firms. She recently completed studies of American manufacturing employment and outsourcing to low-income countries, the role of intellectual returnees in the success of China's photovoltaic solar industry, and the structure of Chinese reforms of state-owned enterprises. Lovely earned her PhD in economics at the University of Michigan, Ann Arbor and a master's degree in city and regional planning from Harvard University.

Dr. Stormy-Annika Mildner (M.Sc.) is the Executive Director of the Aspen Institute Germany in Berlin. As adjunct lecturer, she is adjunct lecturer for political economy at the Hertie School.

From 2014 to 2020, she was head of the department "External Economic Policy" at the Bundesverband der Deutschen Industrie (BDI), Federation of German Industries, being responsible for international trade and investment topics. In this function, she also spearheaded the BDI TTIP campaign (2015-2016). As Sherpa she was responsible for the German Business 7 Presidency (2015) and the German Business20 Presidency (2016-2017). 2017-2019 she represented the BDI in the *Deutschlandjahr Wunderbar Together*, an initiative by the German Foreign Ministry, the Goethe Institute, and BDI, to strengthen the German-U.S. relationship.

Until December 2013, she was a member of the Executive Board of the German Institute for International and Security Affairs (SWP).

Before joining the SWP, she worked for the German Council on Foreign Relations (DGAP), where she headed the program "Globalization and the World Economy".

Ms. Mildner conducted her Bachelor studies in economics and North American studies at the Free University of Berlin and earned a Master of Science in international political economy from the London School of Economics (2000). She wrote her PhD thesis at the Free University of Berlin on the economic and political rationale of export credit finance in the United States.

Top Left

Xi Jinping speaking at Second Belt and Road Forum in Beijing, April 25-27, 2019. Courtesy of the Office of the President of the Republic of Azerbaijan. CCL 4.0
<https://en.president.az/articles/32878/images> / <https://en.president.az/articles/32878>

Top Right

"Surveillance Cameras at the Forbidden City." June 24, 2011. Photo by Skylar Primm. CCL 2.0
<https://www.flickr.com/photos/73101728@N00/9452855977>

Bottom

"COSCO Shipping Taurus 2021 in Hamburg." March 3, 2021. Photo by Wolfgang Fricke. CCL 3.0
[https://commons.wikimedia.org/wiki/File:Cosco_Shipping_Taurus_IMO_9783459_C_Hamburg_03-03-2021_\(1\).jpg](https://commons.wikimedia.org/wiki/File:Cosco_Shipping_Taurus_IMO_9783459_C_Hamburg_03-03-2021_(1).jpg)



American Institute
for Contemporary
German Studies

JOHNS HOPKINS UNIVERSITY

Located in Washington, DC, the American Institute for Contemporary German Studies is an independent, non-profit public policy organization that works in Germany and the United States to address current and emerging policy challenges. Founded in 1983, the Institute is affiliated with The Johns Hopkins University. The Institute is governed by its own Board of Trustees, which includes prominent German and American leaders from the business, policy, and academic communities.

Building a Stronger German-American Partnership