



# Mind the Gap: Priorities for Transatlantic China Policy

Report of the Distinguished Reflection Group  
on Transatlantic China Policy

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## Foreword by the Co-chairs



Wolfgang Ischinger

Dear Reader,

Today's China presents fundamental challenges to the democracies of Europe and North America. At the Special Edition of the Munich Security Conference on February 19, 2021, President Biden spoke about the need "to prepare together for long-term strategic competition with China." At the same event, Chancellor Merkel called on transatlantic partners to articulate a "joint agenda."



Joseph S. Nye, Jr.

In the US, there is a strong bi-partisan consensus in this regard. In Europe, too, attitudes toward Xi Jinping's China have shifted, not just among the foreign policy elite, but also among the broader public. China is no longer seen primarily in terms of trade and investment opportunities or a threat to jobs, but also as a challenge to American and European interests and values including human rights and democracy. Increasingly, European decision-makers view China's behavior in the Indo-Pacific and its projection of influence and power globally with concern.

The June 2021 summits of the G7 and NATO as well as the EU-US summit confirmed that China is at the top of the transatlantic agenda and that there is convergence in terms of moving towards more robust policies in dealing with Beijing.

And yet, a gap remains between American and European views. This is due to different readings of China and differences in basic approaches to foreign, economic, and security policy. In part, the gap reflects differences in the level of economic and financial exposure. In part, it is due to different security interests and defense commitments.

Which elements of the existing international order can be maintained and to what extent that order needs to be adapted has been the subject of intense debate during the work of our Reflection Group. We have also debated to what extent “decoupling” from China is desirable and possible. While we have not resolved these issues, we are convinced that they must continue to be part of the transatlantic conversation.

Faced with the reality of China’s policies today, the democracies of Europe and North America must join forces to defend and advance their interests and their values. If they do so, in cooperation with like-minded partners around the world, we firmly believe they will be able to hold their own in any competition with China. And by working together rather than separately, Canada, Europe, and the United States will create a basis for a more fruitful dialogue with China in the future. None of us want to see a “new Cold War.” We recognize that China has its rightful place in the international system, and we believe that dialogue is necessary.

We hope that this report will contribute to a more joined-up transatlantic approach. It is itself a product of transatlantic cooperation involving the Aspen Strategy Group, the Mercator Institute for China Studies, and the Munich Security Conference. It was made possible by the engagement of a distinguished group of individuals with a wealth of expertise on China as well as transatlantic relations.

All members of the group played an active part in laying the groundwork for this report. However, members do not necessarily subscribe to every aspect of the analysis and recommendations contained therein, and the same holds for the three convening organizations. The report represents an effort at capturing the prevailing opinion among members.





“We are in the midst of a fundamental debate about the future and direction of our world. We’re at an inflection point between those who argue that, given all the challenges we face – from the fourth industrial revolution to a global pandemic – [...] autocracy is the best way forward, [...] and those who understand that democracy is essential – essential to meeting those challenges.”<sup>3</sup>

Joe Biden, US President,  
MSC Special Edition,  
February 19, 2021

## Introduction

As this report was being finalized in July of 2021, it was evident that the views of American, Canadian, and European policymakers on China are converging.

US policy towards China underwent a major shift under President Donald Trump. While different in style and modus operandi, President Joe Biden has broadly continued on this trajectory, with bi-partisan support. In an op-ed published in early June, Biden wrote that the purpose of his trip to Europe was to demonstrate the capacity of democracies to “meet the challenges and deter the threats of this new age.”<sup>1</sup> China featured prominently in that op-ed.

Two years earlier, in 2019, the EU coined its now familiar “China trinity,” describing the People’s Republic as being simultaneously a partner, a competitor, and a systemic rival. Since 2019, European policies have evolved further. In its “EU-US Agenda” of December 2020, Brussels expressed agreement with Washington on “the strategic challenge presented by China’s growing international assertiveness,” while acknowledging that “we do not always agree on the best way to address this.”<sup>2</sup>

The evolution of Western (and global) views on China can only be understood against the background of the course charted by the Chinese Communist Party (CCP) over the past years, ranging from massive violations of human rights and the suppression of political freedoms at home, to “Wolf Warrior” diplomacy and influence operations abroad, to a doubling down on a state-led economic model. The June summits of the G7 and NATO as well as the EU-US summit provide evidence of the significant level of agreement among transatlantic partners, based in good part on concerns about Beijing’s coercive behavior. In these formats, heads of state and government identified a series of specific measures to address challenges presented by China.

One element of convergence is the recognition that a principal challenge emanating from China is in the areas of technology, trade, and investment, and that China’s neo-mercantilist techno-nationalism and sustained non-convergence undermine free-market economies and the existing global system of economic governance.

There is also an understanding that the West must put forward credible alternatives with regard to global infrastructure and connectivity in order to generate economic growth and enhance respect for the rule of law, transparency, and sustainability. Joining forces can help mobilize top-level political support for a comprehensive connectivity strategy, which so far has been lacking on both sides of the Atlantic.

Convergence with regard to China's record on human rights has been particularly tangible. In March 2021, for the first time since 1989 and in coordination with the US, the UK, and Canada, the EU imposed human rights sanctions against China over Beijing's abuses in Xinjiang (China responded by targeting EU institutions, Members of the European Parliament, NGOs, and others). Increasingly, transatlantic partners perceive the CCP as engaging in an assault on liberal values and norms as well as human rights, threatening their core interests.

The inclusion of Taiwan in the final documents of the G7, NATO, and EU-US summits signals unprecedented transatlantic concern about threats to peace and stability in the Taiwan Strait. China's growing diplomatic and military pressure against Taiwan is the main source of cross-Strait tension. Countries on both sides of the Atlantic are increasingly worried about the potential of a military conflict and believe it is important to voice their support for the peaceful resolution of differences between Beijing and Taipei.

The growth of Chinese power has limited the ability of liberal democracies to shape the international order. Transatlantic partners have seen China make its influence felt in international organizations across the spectrum.

With regard to security, there is a high degree of asymmetry between the US, Canada, and European nations in terms of their security exposure in the Indo-Pacific and their respective capabilities. At the same time, it is increasingly clear that European interests are impacted where China encroaches on the sovereignty and independence of Indo-Pacific nations and undermines freedom of navigation. As EU High Representative Josep Borrell noted on June 3, "the EU's interest is precisely this: that the regional order stays open and rules-based."<sup>4</sup> In addition, it is evident that a major crisis in the Indo-Pacific would have immediate repercussions for European security as the US would redeploy military resources from Europe and adjacent areas. At the same time, it would severely impact Europe's economies.



In sum, convergence is real, but important voices have warned against Europe taking sides in what some perceive as a competition primarily between the US and China. Speaking at the Atlantic Council in February, French President Emmanuel Macron said, “a situation to join all together against China, this is a scenario of the highest possible conflictuality. This one, for me, is counterproductive.”<sup>5</sup> A few days earlier, at the World Economic Forum, Chancellor Angela Merkel said much the same and argued against the “building of blocs.”<sup>6</sup>

European reluctance about entering into confrontation with China is also evident in surveys.<sup>7</sup> As documented in the Munich Security Report 2021, publics on both sides of the Atlantic see China as one of the world’s most significant risks (see Figure 1). However, Europeans are more reluctant than North Americans about confronting China, especially in the economic realm (see Figure 5). Convergence in public opinion, too, should not be taken for granted.

Clearly, it would be counterproductive to pretend that the US, Europe, and Canada are fully aligned with regard to China. The reasons are evident and are based in differences of geography, economic exposure, priorities, perceptions, as well as fundamentally different approaches and traditions in foreign policy. Washington recognizes this. As Secretary of State Antony Blinken highlighted in a speech in Brussels on March 24, the US will not force allies into an “us or them” choice with regard to China.<sup>8</sup>

Nor is there a need for full alignment: the areas of agreement among transatlantic partners are substantial and offer a solid basis for cooperation. What is needed is a pragmatic approach identifying joint action where possible and (in the words of the December EU-US agenda) “managing differences” where necessary.

This is the approach advocated in this report. Building on the results of the June summits, we propose a transatlantic agenda focused on achieving quick wins over a period of up to 18 months, with recommendations organized by seven issue areas.

If transatlantic partners can implement such an approach, it will not only enhance the effectiveness of China policies, but will also help put the partnership on a solid foundation. If, by contrast, the democracies of Europe and North America fail to come together, resulting divisions will be a source of

continuous disagreement, potentially undermining the relationship as a whole.

Working together with partners such as Australia, India, Japan, New Zealand, South Korea, and many others with whom areas of agreement can be identified will be crucial to achieving success.<sup>9</sup> In the case of Russia, a constructive dialogue on China is clearly not a near-term prospect. But given Russia's strategic interests it is a conversation to which the West should revert once conditions permit.

The rise of a domestically authoritarian and globally assertive China renders transatlantic cooperation more relevant than at any time in recent history. Transatlantic partners need to be ready for long-term strategic competition. They must also seize opportunities for cooperation with China, starting with issues such as climate change, global health, and food security. By working together from a position of strength, they will improve the chances of arriving at more productive relationships with China.

## Key Priorities

Working together to develop a joint policy agenda on China, transatlantic partners should focus on quick wins. Such quick wins will be important for their impact with China as well as for establishing confidence on both sides of the Atlantic that this cooperation is attainable and worthwhile. With these considerations in mind, we suggest the following policy priorities for transatlantic cooperation over the next six to 18 months:

### Pushing for an Economic Level Playing Field

Transatlantic partners must continue to engage in a long-haul push for the implementation of Chinese commitments regarding market access in China, subsidies, intellectual property (IP) protection, and government procurement rules. However, the immediate transatlantic agenda should focus on steps that can be taken independently of China but that are likely to have effects with the political leadership in Beijing, such as:

- Resolving transatlantic economic disputes to enable more robust cooperation in dealing with China
- Promoting a more joined-up strategic outlook on China's economic trajectory
- Reforming the WTO and working on plurilateral initiatives
- Leveling the playing field with China in third markets through cooperation on the ground

### Bolstering Economic Security

In the face of Chinese efforts to acquire critical technologies and know-how abroad, both sides of the Atlantic have undertaken major efforts to upgrade their investment screening regimes and have placed greater attention on the issue of export controls. Against the backdrop of the Covid-19 pandemic, which acutely exposed strategic vulnerabilities, transatlantic partners have also sought to reduce dependencies on China for the supply of critical materials and technologies. Moving forward, key areas to address include:

- Closing gaps in and future-proofing technology control toolboxes
- Improving supply chain and technology security through diversification
- Mitigating the risks of Chinese economic coercion

### **Competing for Tech Leadership**

Transatlantic partners, while also competitors themselves, have a joint interest in competing for tech leadership vis-à-vis China. The US, Canada, and Europe should selectively strengthen coordination on maintaining a competitive edge in critical foundational, emerging, and frontier technologies (like quantum computing, synthetic biology, and artificial intelligence) and on creating a conducive environment for their deployment, including by:

- Setting tech standards together
- Fleshing out and coordinating rules for the technology sector
- Aligning principles on artificial intelligence governance and ethics
- Developing a shared approach to managing the human rights implications of technology
- Promoting jointly funded research and development in foundational and emerging technologies
- Developing joint guidelines to protect basic science research at universities

### **Providing Alternatives on Infrastructure and Connectivity**

The challenge China's global infrastructure policy poses is well recognized in North American and European capitals. Together, transatlantic partners provide enormous resources for building connectivity worldwide. However, they have failed to coordinate and communicate their level of engagement. Building upon the June 2021 G7 and EU-US Summits, transatlantic priorities should include:

- Developing a coordinated transatlantic approach
- Mobilizing the EU for action
- Taking flagship projects forward
- Promoting a joint narrative
- Joining forces with like-minded partners

### **Setting the Agenda in International Institutions**

It will be critically important that transatlantic partners coordinate their respective norms- and values-based initiatives. However, there is also agreement that the US, Canada, and Europe must intensify practical efforts to pursue a transatlantic agenda across the whole of the global governance architecture, including by:

- Establishing a transatlantic dialogue on international institutions
- Coordinating on policy in international institutions to counter harmful Chinese initiatives
- Coordinating on personnel questions in international institutions to counterbalance Chinese representation

### **Preserving Liberal Society and Promoting Human Rights**

Transatlantic partners should capitalize on opportunities to jointly double down in defense of liberal society, human rights, and political freedoms vis-à-vis China. Increasing coordination between the United States, Canada and Europe as well as coordination within the Organisation for Economic Co-operation and Development (OECD) and with the Global South should be a key component in pursuing transatlantic priorities, such as:

- Setting the terms of civil society interactions – starting with the Beijing Olympics
- Combatting digital authoritarianism
- Elevating anti-corruption as a national security priority
- Formalizing consultation in the OECD and with the Global South

### **Sustaining a Balance of Power for a Free and Open Indo-Pacific**

While European nations are less exposed to China’s hard power and are less engaged in the region, their security interests are significantly impinged upon by the trajectory of Chinese policy. In the near term, common transatlantic priorities should include:

- Developing a joined-up approach on security in the Indo-Pacific
- Upholding international law and engaging with partners in the region
- Supporting Taiwan and preparing for contingencies
- Engaging China on global security issues



# Pushing for an Economic Level Playing Field



“How do we create a level playing field with an ever more challenging, confrontational China? And how do we deal with an ever more aggressive and repressive Russia? Answering these questions will be central to the future of our alliance.”<sup>13</sup>

Heiko Maas, German Foreign Minister, Inauguration of the Fritz Stern Chair at Brookings, March 9, 2021

## The Stakes

Under President Xi Jinping, China has come to embrace a neo-mercantilist techno-nationalism and turned its back on free market economy norms and principles. Domestic market reforms that would have levelled the playing field with OECD economies have slowed down and are increasingly embedded into wider Chinese efforts of bolstering party-state capitalism.<sup>10</sup> At the same time, China’s economic integration with North America and Europe in terms of trade, investment, and capital markets is at an all-time high, and many Western corporates are still doubling down on economic growth and research and development (R&D) opportunities in China. For many North American and European industries, scaling back economic engagement with China, let alone full-scale decoupling, would be difficult and costly.<sup>11</sup>

As they cannot rely on Beijing to reverse course on its domestic and global economic policies and practices, transatlantic partners must join forces and shape the economic environment in which they interact with China in ways that are favorable to European and American interests. To protect free market principles at home and abroad, Europe, the US, and Canada must seek greater alignment on key matters of global economic governance, such as the future of the World Trade Organization (WTO) as well as alternative or complementary plurilateral arrangements. Moreover, with the aim of greater reciprocity in bilateral economic relations in mind, transatlantic partners should align measures to protect the level playing field at home, as Chinese actors expand their footprint, and to support champions of competitive neutrality in China. As China challenges the existing global economic order and rules, transatlantic engagement, and cooperation with like-minded free market economies around the globe also matters more than ever. Recent commitments by the G7 countries to pursue collective approaches to challenging Chinese non-market policies and practices<sup>12</sup> rightly also extend to collaborating with free market economies around the world. This will help to ensure that individual countries, which might be in less of a position of strength vis-à-vis China than the US or Germany, do not need to confront Beijing on their own.





“We must constrain China’s economic predation by partnering with our allies and friends to deny China free access to our markets unless it agrees to abide by global rules of fair trade.”<sup>14</sup>

Mitt Romney, US Senator,  
Member of the Foreign  
Relations Committee,  
The Washington Post,  
April 1, 2021

### The State of Play

The US, Canada, and Europe have long attempted to level the playing field with China, with concerns and interests being largely in alignment: these efforts are aimed at (1) improving the position of foreign commercial actors operating in China vis-à-vis Chinese competitors, e.g., with a view to market access, subsidies, and IP protection, and (2) curbing the spread of unfair Chinese economic practices, such as state-funded and -sponsored takeovers in North America and Europe. However, neither efforts of the US, like the Phase I Deal, nor of the EU, like the political agreement on the Comprehensive Agreement on Investment, seem to be capable of fundamentally changing the trajectory of Chinese economic policy and conduct.

However, there have been a range of level playing field issues between the US and the EU themselves that have distracted them from jointly tackling level playing field issues North American and European companies face in China. These have included disagreements over data privacy standards as well as global corporate taxation. The existence or mutual threats of imposing (even higher) tariffs on European goods, such as steel and automotive products, by the US or on US goods, such as motorbikes or whiskey, by the EU, and the long-standing Airbus-Boeing dispute over subsidies have also hampered Allies’ ability to pursue a joint level playing field agenda vis-à-vis China. Steps taken by both sides to resolve these disagreements, like the Airbus-Boeing moratorium until 2026 or the G7 agreement on global tax reform – if it can garner bipartisan support in the US<sup>15</sup> – could help to enable transatlantic partners to engage more robustly with China on level playing field issues both inside and outside the WTO. They might also pave the way for joint efforts to level the playing field vis-à-vis China in third countries, which have so far also ranked rather low on the transatlantic agenda but which might gain momentum as a topic of greater joint interest on the back of efforts to implement the Build Back Better World (B3W) initiative.<sup>16</sup>

### The Priorities

The US and Europe must engage in a long-haul effort to push China to make and keep commitments on critical aspects of a level playing field, such as market access, subsidies, intellectual property protection, and government procurement rules. However, transatlantic partners might find that rather than engaging with China directly, over the next six to 18 months, leveling the playing field in relation to China will yield more promising results, including with China: such efforts include (1) resolving economic disputes between the US and Europe and strengthening the joint outlook on China's economic trajectory as a basis for engaging China more robustly; (2) building an even stronger rapport with like-minded partners on matters of global economic governance as a basis for a more robust engagement with China and (3) coping with the fallout of unfair practices by Chinese economic actors in third countries. Specifically, joint transatlantic action over the next six to 18 months should revolve around a set of realistic deliverables, which fall broadly into four areas:

#### Resolving transatlantic economic disputes to enable more robust cooperation in dealing with China

The European Commission and relevant US government departments should follow up on the recent G7 agreement on global taxation as a basis for further negotiating relevant rules and processes with China in the G20 context. This is particularly urgent as China has shown growing eagerness itself to set the rules of the game in this space. Clearly, such steps must be designed to ensure broad political support in the United States and European countries, both on substantive grounds but also to ensure any such agreements are lasting and reliable.

At the same time, the moratorium on tariffs in the long-running dispute over subsidies to Airbus and Boeing should lead to a permanent resolution of this issue and free up bandwidth to deal with unfair competition from China's subsidies for its COMAC commercial airliner.

Washington and Brussels should also step up consultations on a number of issues that may not be fully addressed over the next 18 months but are integral to a joined-up position in dealing with China, such as embracing comparable standards for the review of foreign investments and the updating of export controls.

### Promoting a more joined-up strategic outlook on China's economic trajectory

The governments on both sides of the Atlantic should encourage the formation of a transatlantic CEO advisory group on China. Jointly launched by the US president and the EU Commission president, ideally with buy-in from Canada and other interested non-EU European countries, the group would help to bridge the gap between China discussions in the political and business sphere and send a strong signal to Beijing that level playing field issues are at the top of the agenda from all angles.

The American and European Chambers of Commerce in Beijing should launch a joint North American and European tracker on the business environments in strategic markets in China. This could take the form of a joint regular report and also involve participation by other OECD chambers in the future.

### Reforming the WTO and working on plurilateral initiatives

The US, Canada and Europe need to agree that the WTO requires fundamental reform, if it is to be relevant, and to develop a joint agenda, with other free market economies, to deliver such reform. Transatlantic partners should seek pragmatic steps that can revive the WTO, such as finding ways to unblock the impasse at the appellate body, while focusing on making the necessary preparations for the 12th WTO Ministerial Conference that will take place in Geneva in late 2021. In this respect, coordination efforts undertaken under the current UK Presidency of the G7 should be pursued with even greater urgency.

In order to make better use of the WTO with a view to China's unfair trade practices, transatlantic partners should not only focus on institutional reform. They should also jointly bring a group of cases to the WTO that fulfill a single level playing field goal in relation to China, e.g., through "strengthening competitive neutrality", to which other WTO members can then sign up to on a case-by-case basis.

As agreed by G7 nations at the June 2021 summit, transatlantic efforts within the WTO should be complemented by "second track initiatives," such as a plurilateral agreement among the broadest possible coalition of WTO members on state subsidies.

### Leveling the playing field with China in third markets through cooperation on the ground

Europe, Canada, and the US should intensify efforts to jointly address the negative implications of unfair Chinese competition in third markets. This will require the US, Canada, and Europe monitoring and pooling intelligence on the ways Chinese entities propel unfair competition in third markets.

North American and European governments and trade agencies should also develop and deliver joint messages that their economic engagement – and that of their companies and citizens – with third countries is ultimately tied to free and fair market economy principles being upheld by these third countries.

US, Canadian, and European embassies on the ground, investment banks, and development and trade agencies should also develop and implement joint programs aimed at encouraging and supporting recipient countries to embrace free, rules-based market environments. Activities implemented towards this end should aim at strengthening the rule of law, supporting public sector oversight capacity building, specifically as pertains to curtailing corruption, and empowering civil society actors engaged in monitoring labor and environmental practices.



# Bolstering Economic Security



“Building resilience will mean increasing our production of certain types of elements here at home. In others, it’ll mean working more closely with our trusted friends and partners, nations that share our values, so that our supply chains can’t be used against us as leverage.”<sup>21</sup>

Joe Biden, US President, signing of an executive order on supply chains, February 24, 2021

## The Stakes

China has a long track record of industrial and technology policies that involve a highly strategic management of its global interdependencies and commercial relations. Beijing’s efforts are underpinned by government programs aimed at achieving dominance in key market segments and value chains. To this end, China pursues an intensive and systematic campaign of exploiting technology transfers from imports and joint ventures, acquisition, and espionage to leapfrog industrial development, modernize its military, and improve China’s relative global power position.<sup>17</sup> China’s policies have moved beyond playing catch-up in various areas and constitute the world’s most ambitious experiment in “techno-nationalism” – with far-reaching implications for the competitiveness, security, and resilience of transatlantic partners.

As the free market economies that have gathered under the OECD’s umbrella are heavily invested in China and their global supply chains are deeply entangled with the Chinese market, they also share a set of economic security concerns vis-à-vis China. While such concerns traditionally relate mostly to “technology leakage” narrowly defined, they are now expanding and include (1) preventing specific technology transfers with military and dual-use purposes as well as controlling access to cutting-edge and sensitive technologies, (2) strengthening resilience by managing vulnerabilities in supply chains, systems, and networks, and (3) preserving a healthy industrial base and long-term innovation capacity through targeted government funding of R&D and the protection of intellectual property. As the scope of concerns has expanded, so has the set of critical technologies that are of strategic importance.<sup>18</sup>

At the same time, the countervailing commercial incentives to deepen rather than limit interdependence with China are much higher than with any past competitor or adversary of the “West.” The vast Chinese market not only offers revenues that enable companies to spend more on R&D, but also makes it possible in certain sectors to innovate faster and make use of economies of scale.<sup>19</sup> Sustained unequal openness between the Chinese and the OECD markets, however, creates distortions that have a negative impact not only on future competitiveness but also the long-term resilience and economic security of Europe and North America. The security impli

cations deriving from growing interdependence with China are increased further by China's current political trajectory, its declared aim of becoming a leading technology player that is able to use (and abuse) its role in global supply chains for political goals, the growing innovation capacity and global technological clout of Chinese companies, as well as Beijing's renewed focus on military-civil fusion and self-reliance policies.<sup>20</sup>



“We will seek cooperation with likeminded partners wherever we can to support open, fair and rules-based trade; reduce strategic dependencies; and develop future standards and regulations: all of which are critical for our economic strength.”<sup>22</sup>

Valdis Dombrovskis, European Commission Executive Vice-President for An Economy that Works for People, Update to the 2020 EU Industrial Strategy, May 5, 2021

### The State of Play

Recent transatlantic efforts to manage tech competition with China have already led to some initial coordination and/or alignment, including with a view to investment screening mechanisms and revamped export controls. However, the transatlantic community will need to step up its game, as China is increasingly capable and willing to leverage or weaponize economic dependencies, including through the threat and use of retaliatory sanctions,<sup>23</sup> which is undermining the security of free market economies in more profound ways than in the past. Efforts to tackle economic security concerns in relations with China are also already intertwined with the emergence of a broader systemic competition, including over values (also embedded in the use and management of technologies), physical and digital infrastructures, and global diplomatic and geostrategic influence.

However, more effective transatlantic coordination is conditioned by prevailing differences in relative sensitivities related to economic security challenges as well as the competitive nature of technology development between like-minded partners. To overcome their differences, the transatlantic policy and business communities will be well served to follow a few key principles in their approach to economic security. First, allied coordination requires investments in mutual education, information exchanges and private sector dialogue on China and the challenges to economic security it poses. To this end, the recently launched EU-US Trade and Technology Council (TTC) and the envisaged establishment of technology coordination offices in G7 executive agencies that deal with economic security constitute important steps forward. Second, to reconcile global business activity and national security, and control certain technologies effectively, building higher walls for a limited scope of technologies while allowing other transnational business activities to be conducted with as few boundaries as possible should remain the preferred approach. Finally, for an efficient management of technology controls, targeted coordination efforts among flexible technology-specific groupings of countries seems the most promising approach.

### The Priorities

Allies need to “run faster” than China in innovation, technology development, and related standard-setting. This will require more joined-up R&D and industrial strategies and leveraging the existing competitive nature of US and European industries on global markets in limited strategic sectors. In the end, any joint action will only succeed with transatlantic leaders creating a narrative that will convince businesses and the respective publics within the US, Canada and Europe to sacrifice short-term economic gains for long-term economic security and reduced dependence on China. To jointly succeed in the bolstering of economic security over the next six to 18 months, transatlantic partners can and should pursue measures in a number of priority areas:

#### Closing gaps in and future-proofing technology control toolboxes

Transatlantic partners should invest in the multilateral architecture by strengthening the Wassenaar Arrangement, which could include additional resources as well as more frequent updates that capture more adequately the rapid pace of technology development. They should also establish permanent dialogue structures across the Atlantic – and parallel to the relevant multilateral frameworks, to (more rapidly) harmonize the definition and scope of critical emerging and foundational technology definitions.

Another aim should be to establish a regular exchange and information sharing mechanism among transatlantic partners and Japanese and South Korean legislatures on China and economic security in form of joint committee meetings or joint (public) hearings. Greater coordination in this grouping could also include supporting industry associations in Japan, South Korea, the US, Canada, the EU and other European countries to establish best practices for export control compliance and internal company governance.

Transatlantic partners should expand the scope and coordination of screening mechanisms for key technologies, such as quantum or AI, to capture venture capital investments and R&D collaboration with Chinese entities.

The US, Canada, and Europe should invest in more coordinated responses to Chinese cyber theft and attacks, including by establishing liaison officers, conducting joint training and exercises, cyber security policy simulations, and improving modalities for threat and vulnerability intelligence sharing.



### Improving supply chain and technology security through diversification

Transatlantic partners should coordinate information-sharing on (ongoing) supply chain risk reviews, which could include a particular focus on methodology, findings, and the intersections between vulnerabilities.

They should invest in mechanisms that support the establishment of common principles for managing risks associated with non-trusted suppliers for technologies, including on 5G and in the future 6G, building on the EU’s “5G toolbox” and the Prague principles precedent.

Transatlantic partners should work with like-minded economies, such as Japan, on building a large, trusted space of free flows of data to build scale, with Taiwan and South Korea on semiconductor development, with Australia on rare earth supplies, with India on pharmaceuticals, and with key emerging economies on digital connectivity to diversify relations and limit risk accumulation.

### Mitigating the risks of Chinese economic coercion

Transatlantic partners should jointly invest in research and risk assessments toward transparency around critical Chinese activities that create or enhance the potential for economic coercion around technology choke points. The G7 or the TTC should mandate research for and the publication of an annual flagship resilience and economic security report that articulates the research and risks.

They should move to establish a collective security mechanism against economic and political coercion with like-minded countries. Such a mechanism should be triggered when a country is targeted by Beijing. A more ambitious version of this would involve automatic responses to Chinese coercion that would kick in as agreed upon by parliaments in advance. A first step would be to work with countries that have already been targeted by Beijing’s coercive efforts.

Transatlantic partners should invest in risk assessments and potential joint responses to threats of future “infrastructure capture” or dominance by China, including by assessing the scope for coordinating digital currency developments.

# Competing for Tech Leadership

## The Stakes

Technology is already a key element in competition between China and the “West” and will be in the future (see Figure 2). The Covid-19 crisis has catalyzed China’s push for global tech leadership. Beijing’s goal is to rapidly adopt digital and emerging technologies and integrate them with traditional industries to boost China’s future competitiveness. In doing so, Beijing aims to reduce its reliance on foreign technology. Tensions between China and the US, Canada, and Europe have accelerated this trend. The new five-year plan (2021-2026) places a strong emphasis on indigenous technological innovation.<sup>24</sup>

As China’s tech clout grows, transatlantic relations become even more crucial: together North America and Europe could form the politically, economically, and technologically powerful transatlantic core of what should become flexible tech coalitions of like-minded countries that can push back against China’s authoritarian approach. To this end, more transatlantic alignment around technology policy vis-à-vis China is needed.



“You see the possibility for alignment [between the US and the EU...] I would really hope that as democracies we could agree on some of the fundamentals when it comes to standards-setting.”<sup>25</sup>

Margrethe Vestager, European Commission Executive Vice President for a Europe Fit for the Digital Age, *The Wall Street Journal*, June 17, 2021

## The State of Play

In recent years, the US and the EU have diverged on tech issues: for example, a tough American approach to Chinese 5G network technology has compared to an uneven European stance on the issue, with different countries pursuing different strategies to mitigate risks. Europe is also hesitant about decoupling its tech supply chains from China. Rather, many European countries prefer to chart a putative “middle course” between the two technological power blocs.

In large part due to global expansion of Chinese tech firms, which are ever more deeply embedded in an authoritarian political system and, as a result, often implicated in the use of technology for surveillance purposes, transatlantic views are now converging with regard to the downsides of reliance on Chinese technology. Some initial proposals have been made: a new EU-US Trade and Technology Council has been created, and the Biden administration is considering convening a techno-democratic alliance.<sup>27</sup> Still, differences between the EU and the US on tech policy priorities remain.

Transatlantic partners also need to spell out the specifics of their shared understanding of values related to some fundamental matters of tech governance, such as the right to privacy, instead of implicitly assuming a similar understanding on the other side of the Atlantic. Transatlantic cooperation to address China's growing push for leadership in technology can only succeed on the basis of a clearly defined agenda.



“We must build every possible technological sharing path between our key alliances. [...] I’d like to see a national list of key technology platforms that we collectively agree must emerge using Western values and must be the ones being used by our partners.”<sup>26</sup>

Eric Schmidt, Chairman of the US National Security Commission on Artificial Intelligence, Senate Armed Services Committee hearing, February 23, 2021

### The Priorities

Transatlantic partners should pursue the below concrete steps together over the next six to 18 months to lay the groundwork for effective cooperation on tech issues.

#### Setting tech standards together

Europe, the US, and Canada must make greater strides towards promoting joint technology standards, such as in 5G and 6G or artificial intelligence (AI). Beijing sees international bodies as an opportunity to promote Chinese technologies and make them the global standard (see, for example, China’s Standards 2035 policy) and intervenes politically and economically to boost China’s national champions. In contrast, transatlantic partners prefer a more hands-off approach, relying on private corporations to participate in de facto tech standard setting as well as in relevant standard setting bodies, and they assume that a given technology will be judged on its merits.

The US, Canada and Europe must develop a better joint understanding of the geopolitical implications of setting technical standards and avoid a scenario whereby they are divided on standard-setting processes and outcomes themselves. Even without resorting to Chinese tactics, transatlantic partners should share information with each other and with their own companies (1) to help Western companies understand how China attempts to influence global standard setting (2) to assess risk and support the formation of private coalitions, and (3) to ensure there are sufficient funds for knowledgeable Western experts to attend important standards-setting meetings.<sup>28</sup>

#### Fleshing out and coordinating rules for the technology sector

A key priority should be coordinating export controls on key technologies, such as semiconductors (see Figure 4), as these present a high leverage opportunity for capping Chinese capabilities and blunting illiberal uses of technology.

Additionally, the US and the EU should finalize the shared rules they are negotiating to create an enabling environment for US-EU data flows. This will stimulate trade between transatlantic partners and give them maximum leverage to shape global rules. They should also agree on a set of tailored restrictions on technology exports to China as well as foreign direct investment into their technology sectors by Chinese firms.

### Aligning principles on artificial intelligence governance and ethics

The EU is working on a pan-EU framework to set risk-based rules for the use of AI and basic privacy measures to be built into algorithms. The EU envisages a Transatlantic AI Agreement setting “a blueprint for regional and global standards aligned with our values.”<sup>29</sup> Meanwhile, some US cities and states have already moved to ban the use of specific applications of artificial intelligence, such as facial recognition. These different initiatives should lead to transatlantic coordination and alignment on some high-level principles. NATO should support efforts toward transatlantic cooperation on AI, particularly when it comes to security implications for the alliance.

### Developing a shared approach to managing the human rights implications of technology

Developing countries are an increasingly important arena in which the tech competition between the West and China are highly visible. Chinese investments in information technology infrastructure or offerings of inexpensive products may come at a high price for security and human rights. The gathering of data and use of surveillance systems all have human rights implications. Transatlantic partners need to outline a shared understanding of how to ensure human rights protections in the application and development of technologies as well as how to effectively compete with China’s technology offerings in developing countries.

### Promoting jointly funded research and development in foundational and emerging technologies

There needs to be a resurgence in pooling resources between liberal democracies with developed tech sectors for R&D in critical technologies, including quantum computing, synthetic biology, the latest semiconductors, or AI. To this end, the US Senate recently passed the United States Innovation and Competition Act of 2021 (USICA), which authorizes 110 billion US dollars in

spending on federal government R&D and affiliated efforts. The EU, meanwhile, has recently made available more than 100 billion euros for investments into digitization including research, which comes on top of spending by the member states. The US, Canada, and the EU should seek opportunities to support joint research projects between the US, private sector companies, and partner countries.

#### Developing joint guidelines to protect basic science research at universities

The US and the EU have long benefited from open exchange of ideas in the scientific and academic community. It is important to preserve an open, ethical, and integrated global knowledge system. However, some Chinese actors have in recent years taken advantage of Western openness. Instead of closing universities to Chinese or other international researchers, the US, Canada, and Europe should create tailored – and uniform – risk management measures to address current and future security threats. In most cases, this merely requires transatlantic partners to enforce existing guidelines for conflict of interest and openness about funding sources, as well as to deepen training for researchers and students about what activities are inappropriate and how to apply existing rules. A dialogue on these issues should bring together senior representatives of leading research universities in the US, Canada, and Europe to develop basic principles.

# Providing Alternatives on Infrastructure and Connectivity



“It is important to bring forward this connectivity initiative and to make sure we have the better and the more convincing model. [...] It is, for us, important to convince our partners [that] with us, the investment comes without strings attached compared to China.”<sup>31</sup>

Ursula von der Leyen, European Commission President, Euronews, June 13, 2021

## The Stakes

In an increasingly interconnected world, the relevance of global infrastructure is obvious. Connectivity covers infrastructure but captures a broader set of issues relevant to the systemic rivalry underway with an authoritarian China pursuing hegemonic ambitions. Connectivity is inherently geostrategic. It will, in large part, determine the future shape of the world both in terms of physical and digital connections and the predominant set of rule and norms.

While the overall picture is mixed, China has invested heavily into its connectivity strategy, the Belt and Road Initiative (BRI), which extends throughout the developing and emerging world as well as into the EU. Using BRI, China has succeeded in creating a new strategic environment in many geographies, involving new dependencies (raw materials, value chains, trade routes, and loans) and impacting norms (lack of sustainability or degradation of transparency). BRI is based on a China-centric vision of production, trade and value chains and has a long-term negative effect on the autonomy and resilience of recipient countries as well as on global governance.<sup>30</sup>

As the saying goes, you can't fight something with nothing: while BRI has long been criticized by the US and Europe, what is needed are credible alternatives to respond to the vast needs for infrastructure and to generate economic growth, while respecting the rule of law, transparency, and environmental and financial sustainability. Together, transatlantic partners already provide enormous resources for building connectivity worldwide. However, they have failed to coordinate and communicate their level of engagement.

Hence the need for a coordinated transatlantic approach on global infrastructure and connectivity, working through the G7 and EU-US formats in particular. Such an approach would need to cover the respective “neighborhoods” of Europe and North America, while also engaging partners globally, particularly in the Indo-Pacific and Africa.

Given the vast financial needs for connectivity, estimated by the World Bank at around two trillion US dollars a year globally, bringing in the private sec-

tor will be indispensable to any successful transatlantic effort to promote high-quality and high-standard connectivity. However, in many cases development assistance will be critical because projects are not commercially viable.

As some aspects are covered elsewhere, this chapter focuses on the idea of a coordinated transatlantic connectivity approach as well as the construction of the necessary physical infrastructure and the accompanying non-material architecture (principles, institutions, funding).



“China has this Belt and Road Initiative, and we think that there’s a much more equitable way to provide for the needs of countries around the world. [...] It’s a values-driven, high-standard, transparent financing mechanism we’re going to provide [...] and we believe that will not only be good for the countries, but it’ll be good for the entire world and represent values that our democracies represent, and not autocratic lack of values.”<sup>32</sup>

Joe Biden, US President,  
G7 Summit, June 13, 2021

### The State of Play

Connectivity, a concept originally developed to integrate the Soviet space at the end of the Cold War, made a comeback in 2018 when the EU adopted a communication on “Connecting Europe and Asia.” In January 2021, the European Parliament adopted a report on “Connectivity and EU-Asia relations” which expands the connectivity approach to a global level. In 2019 and 2021 the EU concluded connectivity partnerships with Japan and India.

On the US side, a key document is the Build Act, a bipartisan piece of legislation adopted in 2018, which led to the creation of the US International Development Finance Corporation (DFC) with a budget of 60 billion US dollars. There are also other initiatives including the Blue Dot Network, in conjunction with Japan and Australia, and the Clean Network Initiative.

During the first high-level meeting of the EU-US dialogue on China on May 26, Deputy Secretary of State Sherman and EEAS Secretary General Sannino “underscored a shared interest in improving connectivity by supporting partners in setting up regulatory environments that are conducive to sustainable connectivity, as well as through quality infrastructure development and projects consistent with the highest transparency, digital, and green standards.”<sup>33</sup>

The June 2021 G7 summit marks a breakthrough in terms of elevating the issue and attracting top-level political support. Heads of state and government agreed to “aim for a step change in our approach to infrastructure financing” and emphasized the need for transparency, sustainability, and strong standards.<sup>34</sup> The initiative was branded “Build Back Better World” or B3W. The summit established a task force to develop practical proposals and report back in autumn. The objective is to take the initiative forward at the mid-2022 G7 summit hosted by Germany. By contrast, the EU-US summit

communiqué contained only a passing reference, pledging to “enhance our cooperation on sustainable connectivity and high-quality infrastructure.”<sup>35</sup> The question now is whether B3W will do better than previous Western initiatives and whether it will actually translate into a credible program delivering results.

### **The Priorities**

While there will be several lines of operation, the June 2021 G7 summit has identified an important framework. Transatlantic partners should pursue the following measures over the course of the next six to 18 months:

#### **Developing a coordinated transatlantic approach**

Realistically, much of the work on connectivity and global infrastructure will be done on a national or ad hoc basis. However, transatlantic partners should coordinate closely, working through the G7 as well as in other formats. Working through the OECD, the US and Europe should join forces around the Blue Dot Network as a global certification mechanism.

#### **Mobilizing the EU for action**

The EU has been a leader in articulating connectivity as a concept. Its contribution is indispensable in order to provide credible alternatives to BRI. However, bureaucratic infighting has gotten in the way of EU action and the Commission (which controls the relevant resources) has been slow to act. As member states and the European Parliament have been urging, the Commission and the EEAS must seize the momentum of the June summits and move from rhetoric to action with regard to B3W and with regard to implementing the EU’s connectivity partnerships with Japan and India.

The EU and its member states should also review how their official development assistance programs can be integrated into a strategic approach on connectivity.

#### **Taking flagship projects forward**

The EU and its member states should also review how their official development assistance programs can be integrated into a strategic approach on connectivity.



Identifying flagship projects and implementing them rapidly is crucial in order to demonstrate that transatlantic partners are in fact “stepping up”. The following list illustrates the kind of projects that deserve high-level attention:

Development of deep-sea cable digital infrastructure, such as the expansion of the recently inaugurated EllaLink Cable to connect Africa. Transatlantic partners should cooperate to utilize the potential of the EU’s “Data-Gateway Platforms” strategy.

Development of the Anaklia deep-sea port in Georgia, strategically needed infrastructure that would enable a significant increase of freight traffic between Europe and Asia along the most convenient multimodal “Middle Corridor”.

Consolidating infrastructure connections between the EU and the Western Balkans as well as in the area covered by the Three Seas Initiative. The EU is already investing large amounts in land communications and port facilities. Enhanced investments in digital infrastructure would be equally important.

Working with partners in Africa to define priority infrastructure projects in “African growth corridors.”

Providing financing for renewable energy investments in the most climate vulnerable countries (e.g., Maldives, Bangladesh, Pacific Islands, and others) to bring the cost of capital down, enabling a green transition.

### Promoting a joint narrative

The G7 summit has adopted “B3W” as the name for its new infrastructure initiative. It would be a mistake to frame B3W primarily as a countermeasure to BRI. Instead, it will be judged by what it can deliver in terms of real infrastructure. However, as in the case of BRI, communicating the magnitude of this initiative and the values which it represents will be key. Transatlantic partners should therefore plan for a major public diplomacy campaign once the overall policy has been set.

### Joining forces with like-minded partners

Working through appropriate formats, transatlantic partners should actively promote cooperation with regional organizations, such as the Association of Southeast Asian Nations and the African Union.

In parallel, they should engage in systematic coordination within international financial institutions, multilateral development banks, and international standard setting organizations. Together, they should put pressure on China to increase lending transparency as well as openness for debt renegotiation and restructuring. Given the importance of Japan in financing infrastructure in Southeast Asia and elsewhere, transatlantic partners should intensify consultations with Tokyo, as well as other partners such as Australia, India, Singapore, South Korea, and Taiwan to learn from their experience.

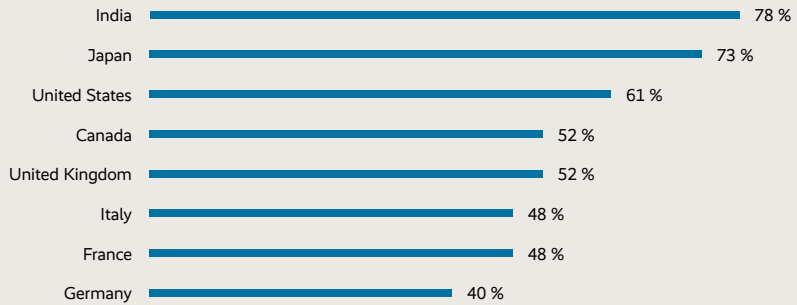
Transatlantic partners should establish a rapid response mechanism with expertise and financial heft ready to be deployed to countries that need assistance and viable alternatives to BRI, as in the recent case of the telecom license auction in Ethiopia. They should cooperate on creating innovative financing mechanisms and pooling resources, tailor-made if and when required for specific regions or sectors.



Figure 1

Gap between US and European perception of risks from China persists (2021, percent saying China poses a risk)

How great a risk does China pose to your country?



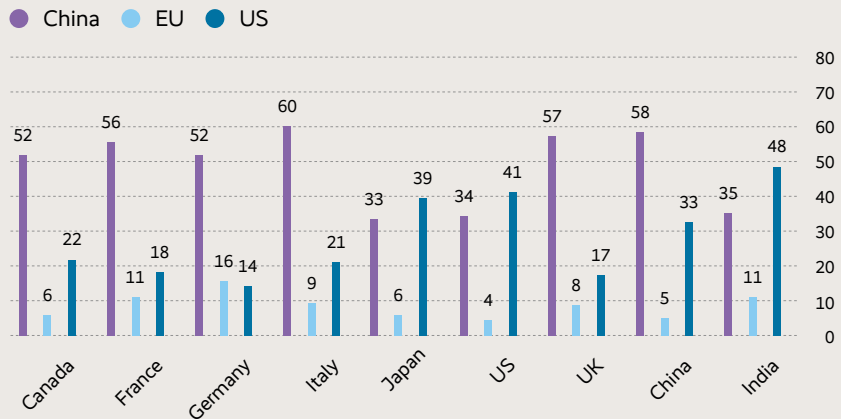
Data: Kekst CNC, commissioned by the Munich Security Conference. Illustration: Munich Security Conference



Figure 2

Europeans expect China, not the US, to lead the world in technology 50 years from now (2021, percent)

In 50 years, which country do you think will be the greatest power in the area of technology?

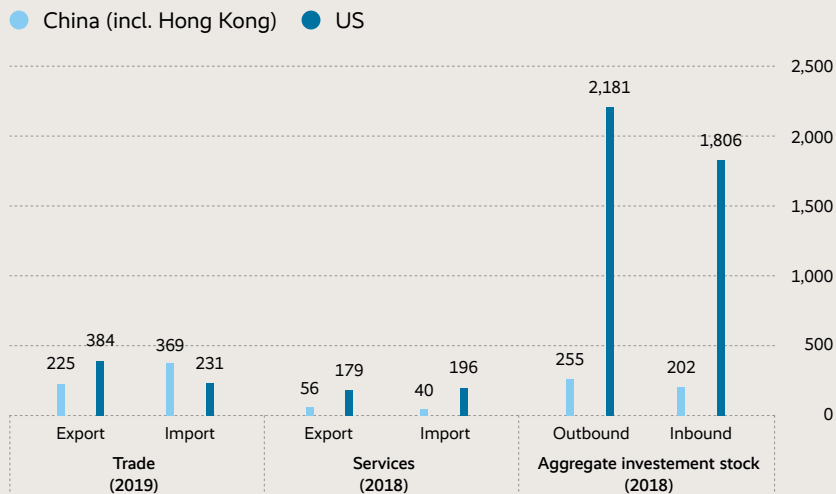


Data: Kekst CNC, commissioned by the Munich Security Conference. Illustration: Munich Security Conference



Figure 3

Economic relations with the United States still matter most for the EU (EU trade with China and the United States in selected sectors, EUR billions)

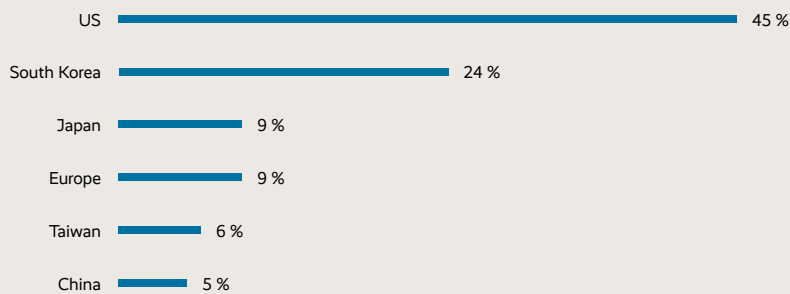


Data: Eurostat. Illustration: MERICS



Figure 4

The US dominates the global chip market (market shares by country/region, 2018)



Data: Semiconductor Industry Association, World Semiconductor Trade Statistics, HIS Global, PwC. Illustration: MERICS



# Setting the Agenda in International Institutions



“It is our populations – the US and Europe – that built the world order of today, not China. [...] The world order that we have, based on democracy and based on the rule of law, is where this planet should go if it’s going to have a future.”<sup>40</sup>

Jim Risch, US Senator, former Chairman of the Senate Foreign Relations Committee, *The Wall Street Journal*, November 18, 2020

## The Stakes

The struggle for power at the global level is increasingly being viewed through the prism of different systems of governance. The question is which political system can best cope with key global challenges such as climate change, technology, health, security, and economic development: China’s centralized and authoritarian state capitalism, on the one hand, or, on the other hand, some variant of the decentralized and democratic market systems of North America and Europe. The answer to this question will, to a large extent, determine not only the scope for international cooperation and conflict, but also the shape of the new world (dis)order. The growth of Chinese power has made this question more difficult and has set stricter limits to the ability of democracies to shape the international order the way they did in the 1990s and 2000s.<sup>36</sup> That kind of liberal international order cannot be restored.

What is left? There is still a Westphalian consensus enshrined in the 1945 Charter. China stresses the norm of sovereignty, according to which states can go to war only for self-defense or with Security Council approval. Taking a neighbor’s territory by force has been rare since 1945 and has led to costly sanctions when it has happened (as with Russia’s annexation of Crimea in 2014). In addition, the UN Security Council has often authorized the deployment of peacekeeping forces in troubled countries, and diplomacy has achieved important results in non-proliferation. This dimension of a rules-based order remains crucial and will likely be maintained.<sup>37</sup>

As for economic relations, the rules will require revision. Economic interdependence and trade will remain the norm. However, already well before the pandemic, China’s hybrid state capitalism underpinned a mercantilist model that distorted the functioning of the World Trade Organization. As the rivalry with China deepens, there is momentum in the US for a measure of decoupling. Meanwhile, Chinese industrial policies, too, implicitly include a tendency toward decoupling. While Europeans mostly reject this tendency, their own views on China have been hardening. Today, Europeans are far more cognizant of the security and political risks entailed in China’s economic statecraft, including espionage, forced technology transfers, strategic



“We conceived new forms of multilateralism in the more troubled world of recent years that were marked by new geopolitical tensions and the non-cooperation of certain great powers. Now, for me, the key is multilateralism that produces results.”<sup>41</sup>

Emmanuel Macron, French President, *Financial Times*, February 18, 2021

commercial interactions, and asymmetric agreements. Thus, they are more willing to agree amongst themselves and with the US on the regulatory and political measures to address these risks. The result will be selective decoupling of key global supply chains, particularly where national security is at stake. Negotiating new trade rules and better enforcing existing ones can help prevent the decoupling from spiraling out of control. At the same time, cooperation in the crucial financial domain remains strong.

By contrast, global challenges like climate change and pandemics pose an insurmountable obstacle to narrow conceptions of sovereignty because the threats are transnational.<sup>38</sup> Here, decoupling would be not only pointless but counterproductive. While issues like Covid-19 and climate change are not necessarily detached from considerations of national interest, resolving them requires broad international cooperation – and not only in coalitions of the like-minded.

The digital sphere is partly transnational, but also subject to sovereign state controls. The internet is already partly fragmented, not least due to interventions of the CCP. Norms regarding free speech and privacy can be developed among an inner circle of democracies but will not be observed by authoritarian states. A “Schengen for data” and trade rules for information and communication technology would be open to countries meeting democratic standards.<sup>39</sup> However, it would seem to be in the interest of authoritarians to buy into some rules barring tampering with the internet’s basic structure if they want connectivity.

### The State of Play

Whereas the US had withdrawn from many international organizations and thereby unintentionally allowed China to expand its influence significantly across the UN system, the new administration is returning to many fora and is once again playing an active role.

President Biden’s visit to Europe, including to the G7, the EU and NATO, established a promising working method to relaunch cooperation in international formats. This model involves transatlantic partners first reaching convergence amongst themselves and with other like-minded countries – for instance in a D10 or similar format – before seeking to enlarge consensus to non-like-minded countries. On corporate taxation, agreement within the G7 will not only need bipartisan support in the United States, but will eventually need to be enlarged to the G20 and the OECD in order to become meaning-

ful. The G7 pledge to provide 1 billion Covid-19 vaccine doses will need to be complemented by agreements within the G20 and the WTO particularly when it comes to the question of intellectual property waivers as opposed to greater production sharing. On climate, too, the agreements reached on finance and risk disclosure will need to be pushed in the G20 and the 26th Conference of the Parties (COP26). In the immediate aftermath of the G7 Summit, China already expressed its opposition to this type of agenda-setting by a “small group” of the world’s democracies.<sup>42</sup>

Moreover, this framework should not discriminate against or exclude efforts by the US to work closely with countries in Asia in particular. Given the challenge to US interests there, on certain issues Washington may need to work first and foremost with countries in that region. In such instances, the US should seek wherever possible to engage and coordinate with European allies.

Europe, the US, and their partners and allies must deepen their cooperation, despite their differences. American and European leaders, to different degrees, have expressed the need to selectively confront, compete with, and, where possible, cooperate with China. In this context, a realistic aim for transatlantic partners should be working to promote the success of rules-based international institutions using different membership and coalitions for different issues.

### **The Priorities**

One size will not fit all. In some areas like non-proliferation, peacekeeping, health, and climate, the US and Europe may be able to find some common ground with China, although even here there can be grounds for skepticism. In other areas, strengthening coordination between democracies should remain the focus. For the next six to 18 months, the priorities should be the following:

#### **Establishing a transatlantic dialogue on international institutions**

If democracies are to successfully enlarge consensus among them to a wider circle of countries, they must intensify coordination on how to act in and reform the relevant international institutions. Transatlantic partners should therefore establish a comprehensive dialogue on cooperation in international institutions, including the UN system and the WTO. The group’s agenda should focus on upholding basic principles of good governance and trans-



parency and identifying areas for reform. The dialogue should also consider how to engage other global players (with whom values are not fully shared) in international regimes – like climate, global public health, economic recovery, or non-proliferation. While there is no guarantee that multilateral solutions reflect transatlantic preferences, aligning in this way with like-minded partners would increase the chances of upholding established norms.

### Coordinating on policy in international institutions to counter harmful Chinese initiatives

The US, Europe, Canada, and like-minded partners should step up efforts to ensure robust participation in international institutions and expert bodies (e.g., by providing resources for private companies to participate in technical standard-setting) and strengthen coordination around drafting proposals in these bodies. Roughly 30 UN agencies and institutions have signed on to memoranda of understanding to endorse the BRI.<sup>43</sup> Coordination should be deepened on countering Chinese proposals at the international level that undermine democratic values and institutions, for instance ones that advertise BRI activities and language via UN initiatives or that aim at debt forgiveness of International Monetary Fund (IMF) or World Bank loans to pay off BRI debt to China.

### Coordinating on personnel questions in international institutions to counterbalance Chinese representation

Chinese officials currently head four of the 15 UN specialized agencies due to concerted efforts to promote China's candidates – while no other country is represented at the head of more than one – with similar efforts underway at lower levels of the bureaucracy in international organizations.<sup>44</sup> The US, Europe, Canada, and like-minded partners should closely coordinate on the selection of UN agency and program heads, as well as heads of human resources and services departments. They should also more proactively promote the representation of their nationals among the rank-and-file professional positions in international organizations.

# Preserving Liberal Society and Promoting Human Rights



“We have consistently spoken out against China’s repression of the Uyghur people in Xinjiang province – and we will continue to do so. [...] We acted quickly and willingly – with cross-party support at home – to keep faith with the people of Hong Kong.”<sup>47</sup>

Boris Johnson, UK Prime Minister, MSC Special Edition, February 19, 2021

## The Stakes

In the decades after World War II, many in the West believed that economic integration would lead to shared values, prosperity, and peace. The end of the Cold War seemed to validate this belief. The emergence of China as an authoritarian state and global economic power has challenged this proposition. Beijing has flouted the norms and values of the rules-based order and asserted that China’s development model provides an alternative to that of market democracies. It has weaponized interdependence and become increasingly assertive, violating other countries’ sovereignty.

China’s assault on human rights and democratic values and norms threatens the political and economic well-being and security of the transatlantic partners across several dimensions. First, it undermines foundational norms of the rules-based order, including freedom of navigation (through its military actions in the South China Sea) and free trade (via its system of subsidies, non-market barriers to entry, and cyber-economic espionage). Second, it works to limit free speech outside its borders through economic coercion. It has threatened and punished countries and multinationals for deviating from Beijing’s line on sovereignty, for example, or for calling for an investigation into the origins of Covid-19. Beijing is also a leading purveyor of disinformation. It sought to inflame political tensions during the recent Taiwan and US elections and to undermine trust in vaccines on both sides of the Atlantic. Third, through the BRI, China exports elements of its political model: it discounts transparency and civil society participation and actively promotes technologies and training that enhance state control over civil society. Fourth, China is using international organizations to align norms and values with its own: redefining what constitutes human rights, undermining the role of human rights defenders within the UN, and proposing new technical standards, including those that would strengthen state control over the internet. Fifth, inside its borders, the Chinese government has detained more than one million Uyghurs and other Muslims in labor and reeducation camps in Xinjiang, raising questions of genocide.<sup>45</sup> Similar efforts to eradicate indigenous religions and cultures are underway in Inner Mongolia and Tibet.<sup>46</sup> China’s imposition of the National Security Law in Hong Kong also suppresses the individual rights of Hong Kong citizens and reflects a com-

plete disregard for the rule of law. Finally, foreign actors living and working inside China live under the threat of arbitrary and wrongful detention without access to due process.

The transatlantic bond is rooted in first-order values such as democracy, pluralism, rule of law, due process, separation of powers, freedom of press, free and fair markets, and respect for human rights and civil liberties. It is critical for transatlantic democracies to uphold these values.



“There are areas where we need to challenge China directly, for example on human rights. So a firm united position such as the one we established here at the G7 will continue to show our approach based on shared values.”<sup>48</sup>

Justin Trudeau, Canadian Prime Minister, G7 Summit, June 13, 2021

### The State of Play

In the US, the Biden administration has made democratic values a centerpiece of its foreign policy and has pressed the EU for increased cooperation. In March 2021, the EU and US, along with the UK and Canada, simultaneously levied travel and financial sanctions against four Chinese officials with direct responsibility for China’s human rights abuses in Xinjiang. In addition, the US and EU, together with Australia, New Zealand, and Canada, released a joint statement calling for justice for the Uyghurs and others in Xinjiang. The US and several European countries have also suspended their extradition treaties with Hong Kong in response to China’s flagrant violations of the 1984 Sino-British Joint Declaration. At the G7 Summit in June 2021, democratic leaders reiterated their pushback to Chinese practices in Xinjiang and Hong Kong.<sup>49</sup> Moreover, the Inter-Parliamentary Alliance on China, a group of over 200 European, North American, Asian, and African parliamentarians and representatives from democratic countries, is producing reports and delivering coordinated messages on Chinese human rights issues.

These actions send an important signal to China concerning governments’ emphasis on the continued strength of democratic values as a binding element in the transatlantic alliance and of their determination to uphold the norms of the liberal international order. However, they remain largely ad hoc and not grounded in a joint strategy. Moreover, many EU member states remain reluctant to confront Beijing on democracy and human rights issues given concerns that doing so would jeopardize economic ties, as underscored by Hungary’s decision to block an EU statement criticizing Beijing for its crackdown on democracy in Hong Kong.<sup>50</sup> In addition, concerns about putting China’s cooperation on climate action at risk are often cited over reluctance to confront Beijing.

## The Priorities

Transatlantic partners should focus on a few key priorities and establish a larger framework or coordinating mechanism over the next six to 18 months for advancing their shared values and norms:

### Setting the terms of civil society interactions – starting with the Beijing Olympics

Transatlantic partners should increase coordination in order to deny China unjustified public diplomacy wins from international civil society events and interactions. With a view to the Beijing 2022 Olympics, this means developing, along with NGOs and multinationals, a strategy that prevents China from receiving positive publicity. This may include not sending government delegations, encouraging corporate sponsors not to celebrate China, and actively highlighting China's ongoing human rights abuses in the media.

### Combatting digital authoritarianism

The EU and US should use the EU-US Trade and Technology Council and establish working groups with representatives from other developing and advanced economies to (1) establish shared digital governance principles and, where relevant, adopt unified or complementary technologies and standards related to personal data collection, network technologies, state surveillance, internet governance, and digital currency; (2) modernize and expand export control legislation to help ensure that US and European entities are not enabling human rights abuses; (3) further sanction Chinese businesses and entities that provide surveillance technology, training, or equipment to authoritarian regimes implicated in human rights abuses; (4) consider restrictions on US and European companies involved in building AI tools for repression; and (5) work with fragile democracies to strengthen the political and legal frameworks that govern how surveillance technologies are used and build the capacity of civil society and watchdog organizations to check government abuse.

### Elevating anti-corruption as a national security priority

Transatlantic partners should create mechanisms for government officials in the US, Europe, and other democratic countries to discuss Chinese authoritarian influence within their countries and ways to effectively push

back, including against disinformation and “weaponized corruption”. This includes raising awareness of China’s influence tactics within private enterprise, the media, academia, and government, and coordinating efforts to bolster the capacity of civil society, political parties, and independent media to expose and counter such tactics.

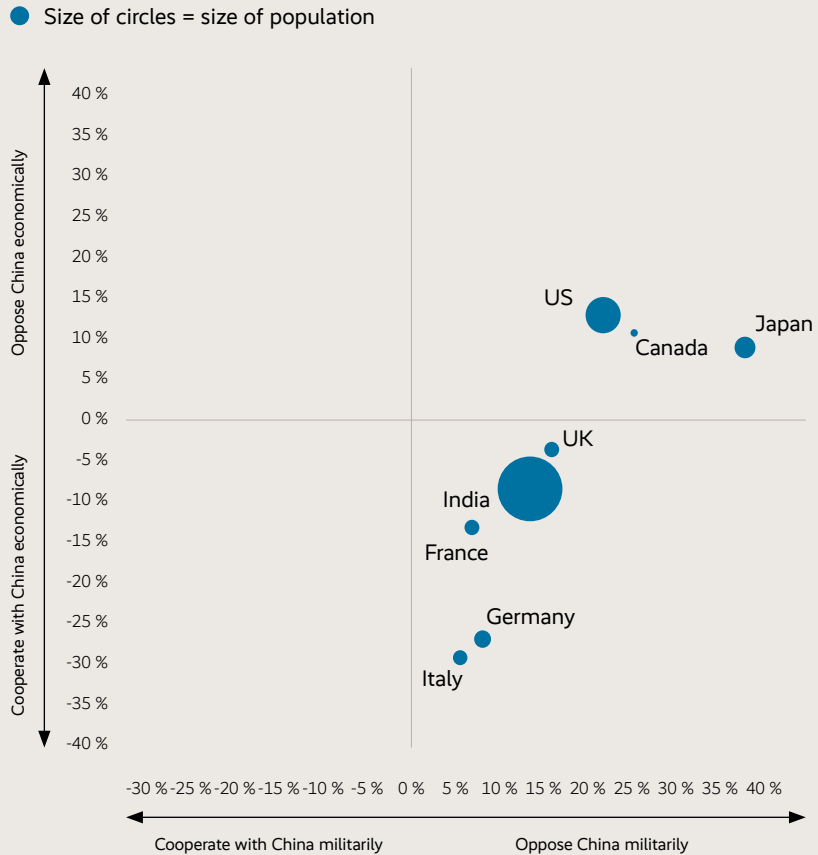
### Formalizing consultation in the OECD and with the Global South

A powerful facilitator for the abovementioned measures would be the transatlantic partners establishing formal frameworks for ongoing consultation – including (1) a working group structure within the OECD and (2) a consultation mechanism with democracies in the Global South. The working group within the OECD would study, consult, and coordinate complementary – if not common – policies to respond to Chinese values-related threats including digital authoritarianism, weaponized corruption, and economic coercion. A formal mechanism for engaging with democracies in the Global South is necessary because preservation of free and democratic values is not a prerogative of advanced market democracies. Others have powerful home-grown traditions of democracy and share many first-order ideals with North America and Europe. The consultation mechanism should help outline how to build inclusive alliances of the like-minded and, for instance, how to use reconfigured supply chains to bolster relations with such players.

Figure 5

North Americans say their countries should oppose China both militarily and economically – unlike Europeans (2021, percent\*)

What do you think your country should do in response to the rise of China as a militarily and economic power?



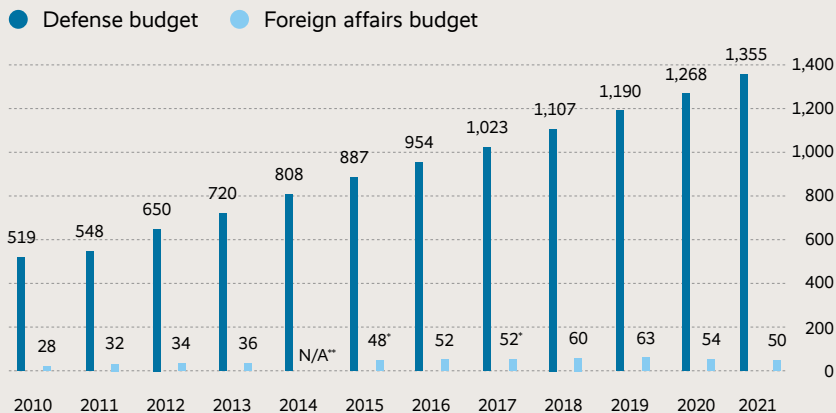
\* Share of respondents saying that their country should oppose China minus share saying that their country should cooperate with China

Data and illustration: Kekst CNC, commissioned by the Munich Security Conference



Figure 6

China's defense budget continues to increase as geopolitical tensions rise (China's official defense and foreign affairs expenditures in CNY billions, 2010–2021)



\* Real expenditure. \*\* Figure not available in official budgets.

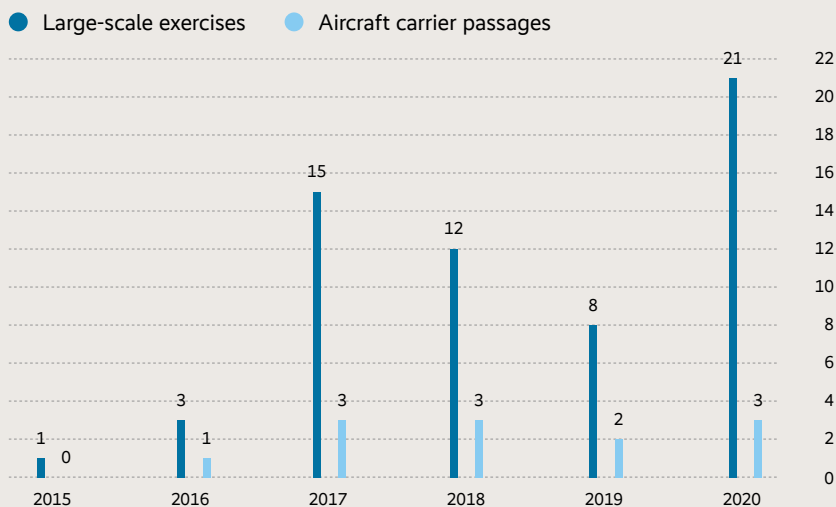
Data: Ministry of Finance of the People's Republic of China.

Illustration: MERICS



Figure 7

China increases military pressure on Taiwan (large-scale PLA maneuvers and drills around Taiwan, 2015–2020)



Data and Illustration: MERICS



# Sustaining a Balance of Power for a Free and Open Indo-Pacific



“Our deterrence posture in the Indo-Pacific must demonstrate the capability, the capacity and the will to convince Beijing unequivocally that the costs of achieving their objectives by the use of military force are simply too high. Indeed, we must be doing everything possible to deter conflict: Our number one job is to keep the peace. But we absolutely must be prepared to fight and win should competition turn to conflict.”<sup>52</sup>

Admiral Philip Davidson, former Commander of US Indo-Pacific Command, Senate Armed Services Committee hearing, March 9, 2021

## The Stakes

With regard to security, there is a high degree of asymmetry between the US, Canada, and European nations in terms of their exposure in the Indo-Pacific and their respective capabilities.

The Biden administration has assessed that China is rapidly becoming more assertive and that Beijing has “invested heavily in efforts meant to check US strengths and prevent us from defending our interests and allies around the world.”<sup>51</sup> For obvious reasons, the Indo-Pacific is the primary theater in which competition between the US and China will continue to play out. The US is a Pacific power and has defense commitments relating to Japan, South Korea, the Philippines, and Australia.

By contrast, European countries and Canada have no defense commitments vis-à-vis third parties in the region. In terms of geography, Europe is far away, notwithstanding French and UK territories in the Indo-Pacific (in the case of France with a population of 1.6 million citizens). European military capabilities in the region are limited.

At the same time, EU and UK security interests are significantly impinged upon by the rise of China and the trajectory of Chinese policy under Xi Jinping, including the rapid build-up of People’s Liberation Army (PLA) capabilities (see Figure 6). Both sides of the Atlantic would be adversely affected by China encroaching on the sovereignty and independence of Indo-Pacific nations and would be gravely harmed by Chinese hegemony over the region that led to unfair terms of engagement. With regard to Taiwan, it is key that there be no unilateral change of the status quo, especially through use of force. All transatlantic partners have important relationships in the region, and all rely heavily on the ability to trade freely with it.

Any armed conflict involving Washington and Beijing would have dramatic global security and economic repercussions. Even short of war, a major crisis would have immediate consequences for European security as the US would redeploy military resources from Europe and adjacent areas.





“The situation in the Indo-Pacific naturally concerns us. Respecting the rules for free trade routes and territorial integrity, strengthening our democratic partners in the region such as Australia, Japan, South Korea, or Singapore are in the German and European interest. The fact that we are sending a frigate to the Indo-Pacific is also seen as a signal in the United States: we are not only talking about freedom of sea lanes, which is being threatened by China, but we are also prepared to do something about it.”<sup>53</sup>

Annegret Kramp-Karrenbauer, German Minister of Defense, Redaktionsnetzwerk Deutschland, April 3, 2021

Europeans cannot be indifferent to the overall security situation in the Indo-Pacific and the well-being of partners in the region. But for European nations, the most direct impact of the security dynamic in the Indo-Pacific relates to the US presence in Europe. For the US, a multi-theater defense strategy is no longer tenable. Washington judges it must prioritize the growing challenge Beijing poses to its interests and that of its Indo-Pacific allies and partners. Doing so will consume an increasing proportion of US attention and resources and significantly reduce the United States’ ability to allocate forces to the defense of Europe. This could have ramifications both in peacetime and in the event of conflict. In a crisis scenario with Russia, the US would likely be pressed to withhold forces to deter and, if necessary, respond to a Chinese move to exploit the opportunity such a scenario might present.

Against this background, the objective for transatlantic partners should be to maintain a balance of power in the Indo-Pacific that is favorable to their shared interests. A second objective should be to deter China from using force to resolve disputes with its neighbors, which could trigger a dangerous US-China military conflict. Europe’s primary contribution to achieving the objectives listed above is likely to be in the area of diplomacy. With regard to defense, a key role for European allies will be to backfill for US forces in Europe and adjacent areas.

Any transatlantic approach on security in the Indo-Pacific must take into account the reality of Beijing’s power. It should acknowledge Chinese interests that are compatible with those of its neighbors, the US and Europe.

### The State of Play

Following the adoption of Indo-Pacific strategies by France, Germany, and the Netherlands, in April 2021, EU Foreign Ministers tasked the Commission and the External Action Service with producing a strategy on the Indo-Pacific by September. Ministers agreed that “current dynamics in the Indo-Pacific have given rise to intense geopolitical competition” and noted that “these developments increasingly threaten the stability and security of the region and beyond, directly impacting on the EU’s interests.” According to the Council conclusions, the EU’s approach “should aim to secure free and open maritime supply routes in full compliance with international law.” The EU’s profile regarding hard security is likely to remain modest, but the document states that “Member States acknowledge the importance of a meaningful European naval presence in the Indo-Pacific” and references “coordinating

maritime presences.” Finally, the conclusions state that “the EU will continue to develop partnerships in the areas of security and defense,” including cyber security, disinformation, emerging technologies, nuclear non-proliferation, arms control, and control of dual use technological exports.<sup>54</sup>

In its March 2021 Integrated Review, the UK announced an “Indo-Pacific Tilt” with regard to British foreign and security policy, covering a whole range of issues. A UK carrier strike group is currently in the region as part of an extended deployment. Significantly, via the Five Power Defence Arrangements (FPDA), the UK has a commitment to consult with Malaysia, Singapore, Australia, and New Zealand should these countries come under attack.

In terms of intelligence cooperation, the “Five Eyes” framework has particular relevance for the Indo-Pacific, bringing together the US, the UK, Canada, Australia, and New Zealand.

Among European nations, France and the UK have significant defense industrial cooperation projects with partners in the region, not least with Australia, Japan, and India.

While there is no formal US defense commitment to Taiwan, the US is substantially committed by legislation and past precedent and is widely considered to have its credibility attached to the island’s fate. The discussion in the US on the need to strengthen deterrence in the Taiwan Strait, ease Taiwan’s isolation in the international community, and enhance its security has tangibly picked up. In Europe, too, the future of Taiwan is increasingly recognized as a key issue due to its strategic significance, its key role in technology, and as a matter of democratic governance.

The inclusion of Taiwan in the final documents of the G7, NATO and the EU-US summits signals unprecedented transatlantic concern about threats to peace and stability in the Taiwan Strait. China’s growing diplomatic and military pressure (see [Figure 7](#)) against Taiwan is the main source of cross-Strait tension. Countries on both sides of the Atlantic are increasingly worried about the potential of a military conflict and believe it is important to voice their support for the peaceful resolution of differences between Beijing and Taipei. Heads of state and government also expressed serious concern about the situation in and around the East and South China Seas.

The June 2021 NATO summit marked the first time the alliance addressed China in a systematic manner. Heads of state and government noted that Beijing’s “growing influence and international policies can present challenges that we need to address together as an Alliance.” They went on to state that NATO will engage China with a view to defending its security interests and expressed concern about its “coercive policies.”<sup>55</sup> China will feature in the new strategic concept of the alliance to be adopted by the 2022 NATO summit. In the words of Secretary General Stoltenberg: “NATO is, and will remain, a regional alliance for Europe and North America. But China is coming closer to us. And this requires our collective attention and action.”<sup>56</sup>

### **The Priorities**

Given the rapidly evolving security dynamics in the region and the significant interests at stake, transatlantic partners should prioritize the following measures in the next six to 18 months:

#### **Developing a joined-up approach on security in the Indo-Pacific**

Transatlantic partners should use NATO, the EU-US Dialogue on China as well as the G7 to develop a joined-up approach on security in the Indo-Pacific. In doing so, they should build on the shared vision of a “Free and Open Indo-Pacific” articulated by the G7 and include this approach in NATO and EU documents as well as in bilateral statements with partners in the region.

NATO should articulate a comprehensive approach regarding China and the Indo-Pacific in its new strategic concept. In this context, it should intensify the existing cooperation with its established Asia-Pacific partners (Australia, Japan, New Zealand, and South Korea) including by creating a permanent council. It should reach out to other partners in the Indo-Pacific, in particular India, to establish or deepen dialogue across a broad range of issues.

The EU should use its forthcoming strategy on the Indo-Pacific (September 2021) to articulate a comprehensive approach with regard to security, not least with regard to maritime capacity building and governance.

### Upholding international law and engaging with partners in the region

Transatlantic partners should also build on the reformulation of policy toward the South China Sea (SCS) by the US in July 2020 and by France, Germany, and the UK in September 2020 to align their positions more closely with the 2016 tribunal ruling on the SCS. They should take steps to amplify common stances on the applicability of international law to the SCS – the UN Convention of the Law of the Sea, the tribunal ruling of 2016, freedom of navigation, and exclusive rights to resources.

Transatlantic partners such as Canada, Denmark, France, Germany, Italy, the Netherlands, Spain, and the UK should conduct presence operations in the SCS and adjacent waters. Select visible Freedom of Navigation Operations will help reinforce the legal positions articulated with regard to the SCS. To the extent possible, transatlantic partners should participate in bilateral or multilateral exercises in the region.

### Supporting Taiwan and preparing for contingencies

Regarding Taiwan, transatlantic partners should consider the following, without prejudice to existing “One-China” policies: (1) take measures to strengthen Taiwan’s resilience and political sustainability, including by stepping up parliament-to-parliament contacts, participating in the “Global Cooperation Training Framework,” promoting Taiwan’s participation in the World Health Organization, International Civil Aviation Organization, United Nations Framework Convention on Climate Change, and Interpol, and exploring possibilities for trade and investment agreements with Taiwan; (2) signal to Beijing that coercion against Taiwan will result in pre-agreed countermeasures by transatlantic partners and that China would incur unacceptable costs across several domains in such a scenario; (3) urge Beijing to reestablish official cross-Strait communication channels and encouraging both Taipei and Beijing to resume dialogue.

Transatlantic partners should also engage in contingency planning for the scenario of a blockade or an armed conflict between the US and China. Despite limited military capabilities, there are valuable things European nations and Canada could do. In a blockade scenario, efforts of transatlantic partners to support availability of imports as well as sufficient demand for exports would be critical. Europe and Canada could also provide political

support, including by imposing sanctions. In addition, individual partners might consider providing air and missile defenses or assistance in the space and cyber domains. Most importantly, European militaries should plan to “backfill” US forces in Europe and adjacent regions extending to the Indian Ocean in a crisis.

### Engaging China on global security issues

Transatlantic partners should consider engaging China in appropriate formats on security issues with regard to the Euro-Atlantic area, given the increasing reach of PLA operations. This could encompass de-confliction mechanisms at the military level. They should also work to bring China into relevant arms control regimes, in line with NATO heads of state and government calling on Beijing to “engage meaningfully in dialogue, confidence-building, and transparency measures, regarding its nuclear capabilities and doctrine.”<sup>57</sup>

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## 1 Gap between US and European perception of risks from China persists (2021, percent saying China poses a risk)

Illustration by the Munich Security Conference based on data provided by Kekst CNC. In response to the question “Here are some specific risks. How great a risk do the following things pose to the world [on a 0-10 scale, where 0 is a ‘very low’ and 10 is a ‘very high’ risk]?” The figure indicates the percent share of those who think the risk is greater than 6 out of 10.

## 2 Europeans expect China, not the US, to lead the world in technology 50 years from now (2021, percent)

Data and illustration provided to the Munich Security Conference by Kekst CNC. In response to the question: “In 50 years, which power do you think will be the greatest power in the following areas? – Military, economic, technology.”

## 3 Economic relations with the United States still matter most for the EU (EU trade with China and the United States in selected sectors, EUR billions)

Illustration by the Mercator Institute for China Studies based on data from “Database,” n.a.: Eurostat, 2021, <https://perma.cc/7DDL-JGVH>.

## 4 The US dominates the global chip market (market shares by country/region, 2018)

Illustration by the Mercator Institute for China Studies based on data from “2020 State of the U.S. Semiconductor Industry,” Washington, DC: Semiconductor Industry Association, June 2020, <https://perma.cc/8V6D-2UKA>; “Market Statistics,” Morgan Hill, CA: World Semiconductor Trade Statistics, 2021, <https://perma.cc/4UZA-EL7L>; HIS Global Consult; PricewaterhouseCoopers.

## 5 North Americans say their countries should oppose China both militarily and economically – unlike Europeans (2021, percent)

Data and illustration provided to the Munich Security Conference by Kekst CNC. In answer to the question “What do you think your country should do in response to the rise of China as a military and economic power?” Respondents were given the following options: “fully cooperate with China,” “somewhat cooperate with China,” “stay neutral,” “somewhat oppose China,” “fully oppose China,” “don’t know.” Figures shown are the net of the total percentage for “oppose” minus the total percentage for “cooperate.”

**6 China's defense budget continues to increase as geopolitical tensions rise (China's official defense and foreign affairs expenditures in CNY billions, 2010–2021)**

Illustration by the Mercator Institute for China Studies based on data from “Cáizhèng Shùjù (Financial Data),” Beijing: Ministry of Finance of the People's Republic of China, 2021, <https://perma.cc/A7UG-D5V5>.

**7 China increases military pressure on Taiwan (large-scale PLA maneuvers and drills around Taiwan, 2015–2020)**

Data and illustration by the Mercator Institute for China Studies, based on systematized and continuous tracking of open source intelligence. Note that, in addition to large-scale PLA maneuvers and drills, incursions by the PLA Air Force into the Taiwanese Air Defense Identification Zone have also increased. See: Gerald C. Brown, “Taiwan ADIZ Violations,” July 2021, <https://perma.cc/WBM3-2VYW>.

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## **The Munich Security Conference (MSC)**

The Munich Security Conference is the world's leading independent forum for debating international security policy. In addition to its annual flagship conference, the MSC regularly convenes high-profile events around the world. The MSC publishes the annual Munich Security Report and other formats on specific security issues.

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Since its foundation in 2013, MERICS has established itself as the leading European think tank on China. MERICS publications often drive China policy debates in Europe and beyond and are frequently quoted in international media. MERICS experts are regularly consulted for their independent expertise by senior public and private sector decision-makers from across Europe. Having its main premises in Berlin, MERICS also entertains an office in Brussels and has staff based in different European capitals.

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## **The Distinguished Reflection Group on Transatlantic China Policy**

The Distinguished Reflection Group on Transatlantic China Policy was convened by the Munich Security Conference, the Mercator Institute for China Studies, and the Aspen Strategy Group. Chaired by Ambassador Wolfgang Ischinger and Professor Joseph S. Nye, Jr., it brought together 19 leading experts on China and transatlantic relations from both sides of the Atlantic. Throughout the first half of 2021, members worked in sub-groups on seven individual issue areas as well as in plenary formats and engaged in outreach to transatlantic decision-makers. The concluding report represents an effort at capturing the prevailing opinion among members.



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### **About the Report of the Distinguished Reflection Group on Transatlantic China Policy**

Today's China presents fundamental challenges to the democracies of Europe and North America. Perspectives on China will continue to differ due to geography, economic exposure, perceptions, historical trajectories as well as foreign policy approaches. But there has been significant convergence among transatlantic partners. Today, areas of agreement are substantial and offer a solid basis for cooperation. What is needed is a pragmatic approach identifying joint action where possible and managing differences where necessary. This report proposes a transatlantic agenda focusing on quick wins, with recommendations organized by seven issue areas.

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