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## U.S.-CHINA COMPETITION

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### Europe

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Europe's Place in Sino-U.S. Competition

*Liselotte Odgaard*

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## EXECUTIVE SUMMARY

This chapter investigates Europe's role in and responses to U.S.-China competition and assesses whether great-power competition for influence is fostering greater European unity and policies that put European interests first.

### MAIN ARGUMENT

U.S. and Chinese pressure on Europe to choose sides and become a great-power dependent have encouraged it to move toward greater unity across a wide spectrum of issues, ranging from trade and industrial policy to Indo-Pacific security and defense. High levels of popular support for the EU have strengthened efforts to carve out an independent position that allows the EU to cooperate with both Washington and Beijing. European policies are increasingly based on interests rather than values, enabling Europe to accommodate the rise of authoritarianism. Putting European interests first also facilitates the diversification of the region's partners. A more self-reliant, interest-based Europe could contribute to international stability by motivating the U.S. and China to be more willing to compromise.

### POLICY IMPLICATIONS

- Europe continues to prefer transatlantic cooperation over other partnerships due to common interests in preserving a liberal world order. Provided both sides acknowledge that their policies are often complementary rather than competitive, transatlantic relations will remain cooperative.
- Europe will continue to cooperate with China on reforming and preserving multilateral institutions such as the World Trade Organization and pursuing diplomacy-based conflict resolution. At the same time, it will establish defensive mechanisms against unfair Chinese trade and industrial practices.
- The EU is adopting a more united position in policy areas such as trade, defense, industry, technology standards, export controls, external and internal security, and multilateral institutions, making its footprint across a wide range of economic and security issues larger than ever.

## Europe's Place in Sino-U.S. Competition

*Liselotte Odgaard*

The trade war between the United States and China demonstrates that Europe is caught in the crossfire between an ally that demands more help to counter an economic and military rival and a rising power that is rolling out a major global economic vision that could transform the regional order at the expense of European political cohesion and economic autonomy. U.S. aims in Europe focus on pushing what is seen as an unruly, free-riding, and ineffective group of allies into place while trying to revitalize cooperation on central U.S. priorities. Old themes that have been thorns in the side of transatlantic relations, such as burden sharing in NATO, the trade imbalance in Europe's favor, and a greater U.S. willingness to use force against security threats, have turned into festering crises. At the same time, the United States still looks to Europe for cooperation in pursuing global interests. Defense cooperation in the Indo-Pacific is seen as important for preventing China from acquiring military and strategic dominance. Economic cooperation to push back at Chinese disregard for intellectual property rights and reciprocal market access is likewise considered crucial to preserving U.S. and European economic prosperity.

Europe has responded ambiguously to U.S. aims. On some issues, it has caved when faced with U.S. demands. Many European countries, for example, are taking steps to increase defense expenditure to 2% of GDP.<sup>1</sup> On other issues, such as reform of the World Trade Organization (WTO),

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<sup>1</sup> Lucie Béraud-Sudreau, "On the Up: Western Defence Spending in 2018," International Institute for Strategic Studies, Military Balance Blog, February 15, 2019, <https://www.iiss.org/blogs/military-balance/2019/02/european-nato-defence-spending-up>.

Europe has attempted to work with China to demonstrate that the country is both a systemic rival and a partner.<sup>2</sup> On still other issues, such as Indo-Pacific defense cooperation, Europe has yet to define and develop its contribution.

Chinese aims in Europe focus on developing economic relations. To this end, Beijing has prioritized implementing a Chinese version of world order—the Belt and Road Initiative (BRI)—and establishing a regional strategic foothold. It aims to ensure access to profitable markets, technological know-how, and infrastructure and to establish a strategic presence in Europe that will enhance its regional economic clout and political influence.<sup>3</sup> Europe's position as a leading global economic force with reservations about U.S. cooperation on key European priorities such as security guarantees, the centrality of multilateral institutions such as the WTO and the United Nations for global economic and security management, and the maintenance of strategic arms control mechanisms makes it a potential jewel in the crown of Chinese strategic partners.

China's implementation of BRI is only beginning in Europe, with a current focus on building infrastructure such as ports in Southern Europe. Of greater concern to European countries, China has invested in the region's high-technology sectors.<sup>4</sup> This emerging economic and political influence sometimes undermines European unity—for example, by establishing the 17+1 initiative made up of eastern and southern EU member states to allow China a greater voice in Brussels. Chinese economic statecraft has adversely affected European coherence on security issues where Europe and the United States largely have common objectives. For example, the EU's South China Sea policy refrains from criticizing China because countries such as Hungary and Greece prioritize attracting Chinese investment.<sup>5</sup> On the other hand, Europe and China cooperate on issues such as WTO reform and the Iran nuclear agreement. China has sufficient common interests with Europe that it will continue to look at Brussels as a partner on economic and security issues even as a growing mismatch between European and Chinese strategic priorities increases competition and confrontation between the two sides.

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<sup>2</sup> Delegation of the European Union to China, "Joint Statement of the 21st EU-China Summit," April 10, 2019, [https://eeas.europa.eu/delegations/china\\_en/60836/Joint%20statement%20of%20the%2021st%20EU-China%20summit](https://eeas.europa.eu/delegations/china_en/60836/Joint%20statement%20of%20the%2021st%20EU-China%20summit).

<sup>3</sup> Joel Wuthnow, "China's Belt and Road: One Initiative, Three Strategies," in *Strategic Asia 2019: China's Expanding Strategic Ambitions*, ed. Ashley Tellis, Alison Szalwinski, and Michael Wills (Seattle: National Bureau of Asian Research 2019), 210–35.

<sup>4</sup> Thilo Hanemann, Mikko Huotari, and Agatha Kratz, "Chinese FDI in Europe: 2018 Trends and Impact of New Screening Policies," *MERICs Papers on China*, March 2019, [https://www.merics.org/sites/default/files/2019-03/190311\\_MERICs-Rhodium%20Group\\_COFDI-Update\\_2019.pdf](https://www.merics.org/sites/default/files/2019-03/190311_MERICs-Rhodium%20Group_COFDI-Update_2019.pdf).

<sup>5</sup> Mikko Huotari et al., "China's Emergence as a Global Security Actor: Strategies for Europe," *MERICs Papers on China*, July 2017, 109.

This chapter concludes that the challenges that Sino-U.S. competition presents for European unity encourage a division of labor between EU institutions that formulate general policies and establish supportive mechanisms, on the one hand, and groups of member states that implement policies, on the other. Innovative institutional cooperation allows Europe to position itself as a strategic influence beyond its traditional stronghold of trade in areas such as industrial policy and security. This strategic positioning is based on putting European interests first. Common interests in pushing back against Chinese industrial, security, and human rights policies that undermine fundamental liberal principles will facilitate continued transatlantic cooperation. At the same time, Europe is diversifying its portfolio of partners to hedge against growing differences of interest with the United States and thus continues to engage in cooperation with China on multilateral institutions and diplomatic conflict resolution.

The rest of this chapter is organized as follows. The first main section defines Europe as an actor and examines the security, economic, and normative challenges engendered by Sino-U.S. competition. The second section examines Europe's geopolitical, security and defense, economic, and normative responses to these challenges. The third section then discusses the consequences of Europe increasingly putting its own interests first with a view to establishing an independent strategic role in the world order.

## How to Understand Europe's Role in Sino-U.S. Competition

### *The Interplay between Regional Institutions and States*

As an actor, Europe is politically rather than geographically defined and consists of the member states of the European Union and the EU institutions. The EU comprises 28 member states, which is expected to drop to 27 if the United Kingdom follows through on plans to leave the EU. The most important EU institutions are the European Council, which convenes the EU heads of state and government to set general objectives and priorities; the European Commission, which has the executive power to submit legislation, implement policies, administer the budget, and set policies on trade beyond the EU's borders; the European Parliament, which exerts democratic control and approves European Commission members; and the European External Action Service, which prepares foreign and defense policy proposals.<sup>6</sup>

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<sup>6</sup> Simon Usherwood and John Pinder, *The European Union: A Very Short Introduction*, 4th ed. (Oxford: Oxford University Press, 2018).

The relative power of the EU institutions depends on the issue area. On trade issues, the institutions are at their strongest. The EU rather than the individual member states legislates on trade and concludes international agreements. Capital market regulation is a case of medium institutional strength. In this area, legislation has been passed that deepens and further integrates the capital markets of the member states. In addition, the EU provides support for initiatives taken by industrial actors within member states to facilitate objectives such as increasing FDI and providing sources of business funding. The EU institutions are at their weakest on security and defense issues. In this area, the EU creates measures and tools such as the European Defence Fund to encourage groups of member states to develop and strengthen cooperation on and coordination of security and defense capabilities and policies.<sup>7</sup>

The EU's ambition is to advance European interests independently from great-power aims across a wide range of economic, security, and normative issue areas. According to the secretary-general of the European Council, Jeppe Tranholm-Mikkelsen, after ten years of economic crises, migration problems, and Brexit, the EU is beginning to have the capacity to look beyond Europe's borders. In a world defined by Sino-U.S. competition, individual member states can no longer exercise sovereignty as they once did. They recognize that they must exercise joint sovereignty to influence the global order.<sup>8</sup> To realize this objective, the EU must demonstrate that it is sufficiently powerful that the United States and China cannot ignore its objectives and policies. The EU institutions are central actors in facilitating coordination between member states by providing frameworks for both dialogue and the adoption of general policy guidelines. From this common basis, groups of member states form to fly the flag for Europe on issues on which the institutions do not have the power to act.

The four biggest EU member states (Britain, Italy, Germany, and France) each have different positions that influence the EU's place in the global order. Britain and Italy tend to embrace both U.S. and Chinese aims in Europe, challenging EU aspirations toward greater unity. Each country maintains close defense and security ties with the United States by hosting U.S. troops, participating in U.S.-led wars, and governing some of the most pro-U.S. populations in Europe. In Italy, 52% of the population holds a favorable opinion of the United States, and in the UK, 50% expresses a favorable view. By comparison, only 38% of the French population and 30% of Germans

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<sup>7</sup> European Council, "Policies," October 10, 2018, <https://www.consilium.europa.eu/en/policies>.

<sup>8</sup> "Caught in the Crossfire: Balancing EU Relations with the U.S. and China" (transcript from panel debate at Hudson Institute, Washington, D.C., April 16, 2017).

hold a favorable opinion of the United States.<sup>9</sup> At the same time, the UK and Italy embrace Chinese policies that leave them vulnerable to Chinese leverage. The UK, for example, is lobbying for British companies to provide either financing or engineering expertise for BRI and advocating that London's financial district connect with China's capital market.<sup>10</sup> Irrespective of the outcome of Brexit, Britain will have to choose to side more closely with the EU, the United States, or China. The country's deepening economic downturn and prolonged domestic political quarrel on future relations with Europe indicate that Britain is too weak to exercise independent international influence. Italy's economic recession at the end of 2018 and retreat from a standoff with Brussels over the country's budget deficit of 2.4% of its GDP indicate that, despite the occasional protest over the EU's economic policies, Italy will opt for cooperation within the EU to exercise sovereignty. It has no appetite for joining Britain's journey toward great-power dependency without influence.<sup>11</sup>

Germany and France continue to be the motors that drive Europe toward more unitary action. Germany is the economic heavyweight that has been historically more oriented toward Eastern and Northern Europe. France provides greater military muscle and traditionally has maintained close ties to Southern and Western Europe. They are thus complementary powers with the shared aspiration of being the caretakers of the EU in its role as a strong guarantor of peace, security, and prosperity. This was confirmed with their 2019 agreement on bilateral cooperation at Aachen.<sup>12</sup> Germany and France cooperate with the United States and China from very independent positions, manifesting support for core liberal economic and political values and refusing to succumb to geostrategic U.S. or Chinese policies that in their view enhance great-power competition.

Despite suspicions in the other EU member states that Germany and France are exercising hegemonic decision-making power in Brussels, at times deepening conflicts, German-French cooperation on uniting Europe at a time of Sino-U.S. competition is a precondition of the success of such an ambition. The rest of this section investigates economic, security, and

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<sup>9</sup> Pew Research Center, "Trump's International Ratings Remain Low, Especially among Key Allies," October 2018, 19.

<sup>10</sup> Lucy Hornby and George Parker, "Hammond Courts China Economic Ties on Beijing Trip," *Financial Times*, April 27, 2019, <https://www.ft.com/content/a791f700-6812-11e9-9adc-98bf1d35a056>.

<sup>11</sup> Peter Schechter, "Italy Will Keep Blinking in 2019," *EUobserver*, February 4, 2019, <https://euobserver.com/opinion/144054>.

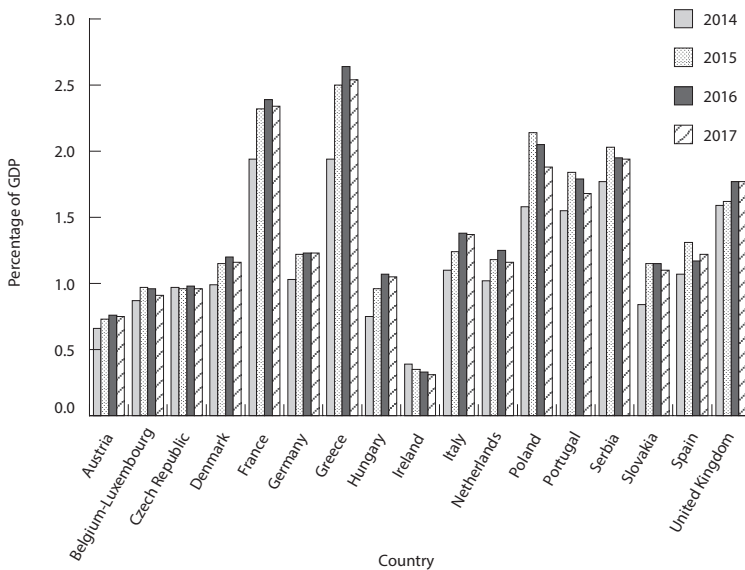
<sup>12</sup> *Traité entre la République Française et la République Fédérale d'Allemagne sur la coopération et l'intégration Franco-Allemandes* [Treaty between the French Republic and the German Federal Republic on French-German Cooperation and Integration], January 22, 2019, <https://www.diplomatie.gouv.fr/fr/dossiers-pays/allemande/rerelations-bilaterales/traité-de-coopération-franco-allemand-d-aix-la-chapelle>.

normative challenges to European cohesion and transatlantic cooperation engendered by U.S.-China rivalry.

### *Challenges from U.S.-China Security Competition*

For decades, the United States has complained about a free-riding Europe with small defense budgets and tight political constraints on its use of hard power (see **Figure 1**). Since NATO's inception, Washington has shouldered most of the burden of defending the United States and its allies against military threats.<sup>13</sup> The United States continues to constitute the backbone of NATO deployments to deter threats against European security such as

**FIGURE 1** European defense spending as a percentage of GDP, 2014–17



SOURCE: Trading Economics, 2018, <https://tradingeconomics.com>.

<sup>13</sup> Charles Cooper and Benjamin Zucker, "Perceptions of NATO Burden-Sharing," RAND Corporation, Report, 1989, <https://www.rand.org/pubs/reports/R3750.html>.



those from Russia in Eastern Europe and the Baltic states.<sup>14</sup> However, China's emergence as a competitor that seeks to displace the United States as the principal security provider in Asia has encouraged Washington to gradually shift military resources toward Asia and away from Europe.<sup>15</sup> Moreover, Russia's and China's limited nuclear war capabilities and strategies have prompted the United States to change its nuclear force strategy to allow for precisely tailored nuclear attacks that fall far below the threshold of mutually assured destruction.<sup>16</sup>

The United States explained its withdrawal from the 1987 Intermediate-Range Nuclear Forces (INF) Treaty in 2019 with reference to Russian treaty violations. However, the predominant reason for the U.S. withdrawal was widely thought to be that China does not form part of the Cold War arms-control regime. This omission prevents the United States from installing intermediate-range missiles in Asia directed against China.<sup>17</sup> The EU argued that Washington's decision left Europe especially vulnerable because it is within reach of both U.S. and Russian missiles that the INF Treaty prohibits.<sup>18</sup> The United States' decision to withdraw from the treaty is part of a pattern of actions to prioritize threats to U.S. security interests and assets. Similarly, the 2018 U.S. Nuclear Posture Review was received with dismay in Europe.<sup>19</sup> Washington's greater willingness to consider using nuclear weapons to counter threats destabilizes the world in Europe's view by increasing the risk that nuclear weapons could be used at lower levels of conflict. Nevertheless, save for France and Britain, Europeans are not yet ready to travel the route of strategic nuclear autonomy. For example, Europe remains unwilling to place French nuclear capacities under EU command.<sup>20</sup>

China's strategic partnership with Russia is also a growing concern. BRI might help Russia realize its geopolitical agenda of pushing back against NATO's presence from the Arctic down to the Mediterranean. Xi Jinping's

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<sup>14</sup> Grzegorz Kuczyński and Krzysztof Kamiński, "U.S. Permanent Military Base in Poland: Favorable Solution for the NATO Alliance," Warsaw Institute, Special Report, November 2019, <https://warsawinstitute.org/u-s-permanent-military-base-poland-favorable-solution-nato-alliance>.

<sup>15</sup> Ashley J. Tellis, "Pursuing Global Reach: China's Not So Long March toward Preeminence," in Tellis, Szalwinski, and Wills, *Strategic Asia 2019*, 40–43.

<sup>16</sup> U.S. Department of Defense, *Nuclear Posture Review* (Washington, D.C., February 2018), <https://dod.defense.gov/News/SpecialReports/2018NuclearPostureReview.aspx>.

<sup>17</sup> Mercy A. Kuo, "U.S. Withdrawal from INF Treaty: Impact on Asia," *Diplomat*, March 1, 2019, <https://thediplomat.com/2019/03/us-withdrawal-from-inf-treaty-impact-on-asia>.

<sup>18</sup> Sico van der Meer, "The Demise of the INF Treaty: Can the EU Save Arms Control?" *EUobserver*, May 18, 2019, <https://euobserver.com/opinion/143980>.

<sup>19</sup> U.S. Department of Defense, *Nuclear Posture Review*.

<sup>20</sup> Manuel Lafont Rapnouil, Tara Varma, and Nick Witney, "Eyes Tight Shut: European Attitudes towards Nuclear Deterrence," European Council on Foreign Relations, December 2018, [https://www.ecfr.eu/specials/scorecard/eyes\\_tight\\_shut\\_european\\_attitudes\\_towards\\_nuclear\\_deterrence](https://www.ecfr.eu/specials/scorecard/eyes_tight_shut_european_attitudes_towards_nuclear_deterrence).

launch of the Polar Silk Road in Russia in July 2017 envisages expanded cooperation in the energy sector, a joint venture to build ice-class cargo vessels, and the development of a northeast Arctic underwater fiber-optic telecommunications cable. China has also offered to build railway links from Norway through Finland and the Baltic states, making the Northern Sea Route that runs through Russia's territorial waters in the Arctic more economically profitable.<sup>21</sup> Chinese economic investments provide Russia with resources and infrastructure that will enable it to expand its influence in Europe's eastern border regions. Growing military cooperation between Russia and China adds to the long-term concerns about the emergence of an additional Chinese military threat.<sup>22</sup>

The U.S. withdrawal from the Joint Comprehensive Plan of Action agreement for preventing Iran from acquiring nuclear weapons, which resulted in the United States reinstating sanctions against Iran, highlights the importance of using the potential complementarity of different U.S.-European instrumental preferences for conflict resolution. Europe has continued to collaborate with China, Japan, and Russia on preserving the agreement. The Iran nuclear issue is a reminder that internal European decisions on the instruments used to protect regional security, rather than looking to the United States as a security provider, are necessary in an international order of fluctuating alliances and faltering multilateral frameworks. Indeed, European insistence on institutional instruments for diplomacy complements the continued U.S. sanctions pressure on the Iranian economy, and the combination could sufficiently weaken Iran to prevent it from further destabilizing the Middle East.

European policies toward the South China Sea also highlight the possibilities and limitations of transatlantic cooperation. The Sino-U.S. strategic rivalry has produced a confrontational and uncompromising atmosphere with regular incidents involving U.S. and Chinese navies, coast guards, and paramilitary forces that risk escalation. The United States seeks greater European cooperation on confronting Chinese challenges in the

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<sup>21</sup> Elizabeth Wishnick, "Russia and the Arctic in China's Quest for Great-Power Status," in Tellis, Szalwinski, and Wills, *Strategic Asia 2019*, 48–78; and M. Taylor Fravel, Kathryn C. Lavelle, and Liselotte Odgaard, "China in the Arctic: Melting and Freezing of Alliances as the Climate Changes in the Polar Zone" (paper presented at the International Studies Association annual conference, Toronto, March 27–30, 2019).

<sup>22</sup> Dick Zandee, "The Future of NATO: Fog over the Atlantic?" Clingendael Institute, *Strategic Monitor 2018–2019*, 2018, <https://www.clingendael.org/pub/2018/strategic-monitor-2018-2019/the-future-of-nato>.

South China Sea, but Europe does not see China as a direct military threat.<sup>23</sup> However, China's militarization of the South China Sea and its encroachments on the freedom of navigation of civilian and military vessels in areas that are defined as international waters are seen by both Europe and the United States as threats to globally recognized interpretations of international law. If China succeeds in limiting freedom of navigation in its neighborhood, persuading weaker powers to accept such restrictions in return for peaceful and profitable relations, it may set a global precedent.

Europe's South China Sea policy consists of general policy declarations that do not directly criticize China. The EU's statement on the Permanent Court of Arbitration's award in the dispute between the Philippines and China stated that the EU was committed to upholding international law in the maritime domain.<sup>24</sup> The watered-down statement reflects that China's growing economic presence in Europe has political consequences. Countries such as Hungary and Greece that want to attract Chinese investments are hesitant to oppose Chinese actions. Because of these internal divisions, a growing number of member states coordinate operations in support of freedom of navigation in the South China Sea to circumvent internal disagreements on how much to contest China far from European shores.

### *Challenges from U.S.-China Economic Competition*

Europe has welcomed the U.S. attack on the structural problems of Chinese market economic practices, which violate international regulatory regimes of the WTO. The EU also agrees with the United States that China is no longer a developing country and should not be entitled to special treatment in the WTO.<sup>25</sup> However, the EU disapproves of the economic costs of using punitive tariffs to force China to comply. The European commissioner for trade, Cecilia Malmström, has stated that although the EU and the United States share many concerns about China's economic policies, the EU does not approve of the Trump administration's approach

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<sup>23</sup> Fidel Sendagorta, "The Triangle in the Long Game: Rethinking Relations between China, Europe, and the United States in the New Era of Strategic Competition," Belfer Center for Science and International Affairs, Project on Europe and the Transatlantic Relationship, June 2019, 97, <https://www.belfercenter.org/publication/triangle-long-game>.

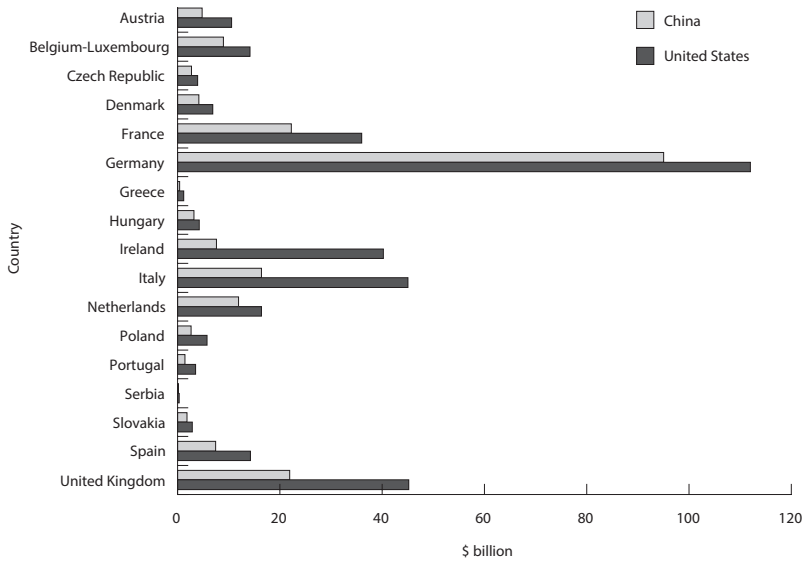
<sup>24</sup> European Union External Action Service, "Declaration on the Award Rendered in the Arbitration between the Philippines and China," July 15, 2016, [https://eeas.europa.eu/headquarters/headquarters-homepage/6873/declaration-award-rendered-arbitration-between-philippines-and-china\\_en](https://eeas.europa.eu/headquarters/headquarters-homepage/6873/declaration-award-rendered-arbitration-between-philippines-and-china_en).

<sup>25</sup> European Commission, "EU-China—A Strategic Outlook," March 12, 2019, [https://ec.europa.eu/commission/news/eu-china-strategic-outlook-2019-mar-12\\_en](https://ec.europa.eu/commission/news/eu-china-strategic-outlook-2019-mar-12_en).

of using tariffs to achieve political goals. Europe sees China as an economic rival but not a political enemy.<sup>26</sup>

In the economic sphere, the United States has long-standing complaints about the trade imbalance in Europe’s favor (see **Figures 2** and **3**). Its imposition in May 2018 of tariffs on EU steel and aluminum exports and refusal to allow the appointment of new WTO appellate body members—a refusal that impairs the WTO’s ability to work—have led the EU to impose retaliatory tariffs on select U.S. exports and cooperate with China on upholding the WTO as a central institution for managing global trade issues through reform measures. U.S. actions thus have aligned Europe

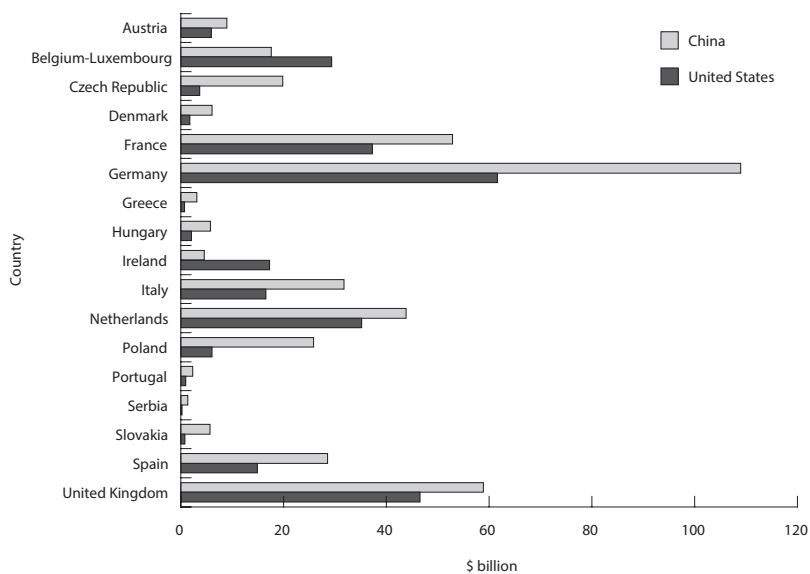
**FIGURE 2** European exports, 2017 (selected countries, \$ billion)



SOURCE: Alexander Simoes, Observatory of Economic Complexity database, <https://atlas.media.mit.edu/en>.

<sup>26</sup> Peter Müller and Christian Reiermann, “EU Commissioner on the U.S.-China Trade War: ‘Our List of Countermeasures Is Ready,’” *Der Spiegel*, June 26, 2019, <https://www.spiegel.de/international/europe/eu-commissioner-cecilia-malmstrae-m-on-the-u-s-china-trade-war-a-1274479.html>.

FIGURE 3 European imports, 2017 (selected countries, \$ billion)



SOURCE: Simoes, Observatory of Economic Complexity database.

more closely with China. Given that many European countries consider U.S. trade policies to be an imminent threat to the viability of multilateral trade regulation, the issue of tariffs and the WTO is seen as a litmus test for future transatlantic cooperation.<sup>27</sup>

Another area of U.S.-China competition with economic implications for Europe is technology standards. Such standards establish boundaries for technology usage, specifying the technology to be used and restricting access to technology outside these limits. The controversy both over Huawei's use of network devices to provide data access to the Chinese government and over Facebook's collection of data from users without compliance have made this issue an urgent European concern. In 2018 the EU General Data Protection Regulation (GDPR) went into force, requiring private and public organizations to gain consent before using data and to protect the data in their possession. As artificial intelligence becomes a key driver of economic development, Europe is grappling with ensuring competitiveness while shaping the conditions for the development and use of technology through

<sup>27</sup> "Caught in the Crossfire."

instruments that build on the GDPR.<sup>28</sup> The United States and Asia host 79% of the world's most valuable tech companies.<sup>29</sup> Europe's weak position in the global technology market leaves it at a disadvantage in terms of both standard setting and competitiveness. The U.S. technology industry is basing its long-term strategic plans on Balkanization, relying on regionalized supply chains that decrease economic and technological interdependence between the United States and China.<sup>30</sup> Rumors that China is considering establishing an Asian standardization organization, which would be available to Asian partners of BRI, is another indication that global standards organizations may not have a future.<sup>31</sup> This development would leave Europe with little influence in an area of major importance for economic growth and security.

The U.S.-China dispute over Huawei illustrates Europe's vulnerability in this regard. In May 2019, the United States took retaliatory action against Huawei, warning that Chinese state-owned companies are legally obliged to share information of importance to state security with the Chinese government. Huawei equipment has already been incorporated into the 4G networks of numerous European countries. In 2018, Huawei controlled more than 40% of the European base-station market, surpassing the market shares of the European companies Nokia and Ericsson.<sup>32</sup> For the time being, France, Germany, and several European countries have moved away from a ban against Huawei and are opting instead for a regulatory approach aimed at securing sensitive data.<sup>33</sup> This has underscored the need for an EU approach that carries sufficient weight to enable Europe to compete with the United States and China.

Export controls are central to Europe's role in the U.S.-Chinese economic competition, being closely connected to the technological standards on which export licenses are based. Technological standards regulate data production and access and hence also determine which entities can get a license to be involved in sensitive sectors with dual-use technology and patented

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<sup>28</sup> European Commission, "Digital Single Market: Policy: Artificial Intelligence," July 4, 2019, <https://ec.europa.eu/digital-single-market/en/artificial-intelligence>.

<sup>29</sup> Casper Klyngé, "Tech Diplomacy," Ministry of Foreign Affairs (Denmark), September 3, 2019.

<sup>30</sup> Off-the-record briefing with a chief technology officer at a U.S. telecommunications company, Hudson Institute, Washington, D.C., April 29, 2019.

<sup>31</sup> Björn Fagersten and Tim Rühlig, "China's Standard Power and Its Geopolitical Implications for Europe," Swedish Institute of International Affairs, Brief, no. 2, 2019, 16, <https://www.ui.se/globalassets/ui.se-eng/publications/ui-publications/2019/ui-brief-no.-2-2019.pdf>.

<sup>32</sup> Minoru Satake, "Europe Adopts Huawei Gear into 5G Networks over U.S. Objections," *Nikkei Asian Review*, May 16, 2009, <https://asia.nikkei.com/Spotlight/5G-networks/Europe-adopts-Huawei-gear-into-5G-networks-over-US-objections>.

<sup>33</sup> Achour Messas et al., "5G in Europe: Time to Change Gear!" Institut Montaigne, May 2019, <https://www.institutmontaigne.org/ressources/pdfs/publications/5g-europe-time-change-gear-part-1-note.pdf>.

intellectual property. Export controls highlight the weakness of existing EU regulatory mechanisms at a time when Europe shares U.S. concerns about Chinese forced technology transfers and intellectual property theft. Export controls limit the spread and use of specific goods and services for purposes of national security. Regional and national export control regimes are challenged by technological developments. Intangible technology transfers occur in the form of FDI, mergers and acquisitions, research and education cooperation, and the transfer of data in nonphysical forms. These transfers have helped China's arms industry, for example, compete with more established arms exporters on global markets. The key question for Europe is to what extent the EU should build more restrictive export controls for European industry and R&D at a time when Europe is already facing serious issues of competitiveness in the technology industry as a result of the growing Sino-U.S. rivalry.

In sum, U.S.-China economic competition poses a challenge to Europe insofar as it relies on global standards and markets. The escalating rivalry between the two countries thus encourages the EU to put regional interests first, diversify its portfolio of partners, and facilitate regional collaboration on an industrial policy that would make Europe more self-reliant and competitive.

### *Challenges from U.S.-China Normative Competition*

The United States and Europe share an emphasis on the liberal values of democracy, human rights, and market economic principles as the route to global prosperity and order. These values have formed the basis of the globalized post-World War II liberal institutions.<sup>34</sup> In contrast with Europe, however, the American public is more inclined to support the use of force to uphold world order, less inclined to seek UN approval, and less inclined to assist other nations.<sup>35</sup> Thus, during a time of waning U.S. power, there is considerable popular support for the United States' withdrawal from multilateral institutional and diplomatic commitments in order to facilitate the unilateral protection of U.S. national interests.

The United States, Britain, and France hold three of the five permanent seats with veto-wielding power in the UN Security Council. The remaining two permanent seats are held by China and Russia. This position allows the Western member states to set the agenda. However, with the surge of U.S.-China competition, the Security Council has become a forum in which conflict resolution is stymied and political divisions prompt the permanent

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<sup>34</sup> G. John Ikenberry, "Power and Liberal Order: America's Postwar World Order in Transition," *International Relations of the Asia-Pacific* 5, no. 2 (2005): 133–52.

<sup>35</sup> Pew Research Center, "The American-Western European Values Gap: American Exceptionalism Subsidies," Global Attitudes Project, February 29, 2012, <https://www.pewglobal.org/2011/11/17/the-american-western-european-values-gap>.

members to frequently use their veto powers.<sup>36</sup> This institutional paralysis, combined with the UN system's bias against legitimizing the unilateral use of force for purposes of international conflict resolution, makes UN institutions increasingly unattractive instruments for the United States to pursue its interests.<sup>37</sup>

European support persists for the UN's emphasis on the legal equality of states, irrespective of size and ideological basis. In an era of U.S.-China competition, this norm allows weaker states to wield considerable influence. Internal challenges to Europe's commitment to UN multilateralism have arisen, as illustrated by the refusal of nine EU member states to sign on to the UN's Global Compact for Safe, Orderly and Regular Migration. Nevertheless, such incidents remain exceptions to the general pattern that the EU countries act together on most UN resolutions.<sup>38</sup> China's growing role in the United Nations is seen as both an opportunity for and a challenge to promoting this and other European values. China aspires to be recognized as a responsible power that is concerned with protecting not merely Chinese interests but also the common interests of peace and security for all states.<sup>39</sup> To this end, it has become a major contributor to UN responsibilities such as peacekeeping.<sup>40</sup> As wars in Iraq, Afghanistan, and Libya worsened the human rights situation for civilians, Europe recognized that, in contrast to the United States, China's UN policy offered support for Europe's preferences for avoiding the use of force and addressing problems of poverty and education to protect against human atrocities.<sup>41</sup>

European recognition of China's contributions to the UN humanitarian agenda exists alongside a growing concern that the country is a systemic rival that promotes an alternative model of governance that undermines the core European tenets of rule of law, human rights, democracy, and good governance. China's failure to observe basic human rights in Xinjiang and

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<sup>36</sup> Ian Martin, "In Hindsight: What's Wrong with the Security Council?" Security Council Report, March 29, 2018, [https://www.securitycouncilreport.org/monthly-forecast/2018-04/in\\_hindsight\\_whats\\_wrong\\_with\\_the\\_security\\_council.php](https://www.securitycouncilreport.org/monthly-forecast/2018-04/in_hindsight_whats_wrong_with_the_security_council.php).

<sup>37</sup> Ted Piccone, "U.S. Withdrawal from UN Human Rights Council Is 'America Alone,'" Brookings Institution, June 20, 2018, <https://www.brookings.edu/blog/order-from-chaos/2018/06/20/u-s-withdrawal-from-u-n-human-rights-council-is-america-alone>.

<sup>38</sup> Richard Gowan, "How Not to Save the World: EU Divisions at the UN," European Council on Foreign Relations, January 22, 2019, [https://www.ecfr.eu/article/commentary\\_how\\_not\\_to\\_save\\_the\\_world\\_eu\\_divisions\\_at\\_the\\_un](https://www.ecfr.eu/article/commentary_how_not_to_save_the_world_eu_divisions_at_the_un).

<sup>39</sup> Rosemary Foot, "'Doing Some Things' in the Xi Jinping Era: The United Nations as China's Venue of Choice," *International Affairs* 90, no. 5 (2014): 1085–1100.

<sup>40</sup> Sunghee Cho, "China's Participation in UN Peacekeeping Operations since the 2000s," *Journal of Contemporary China* 28, no. 117 (2019): 482–98.

<sup>41</sup> Liselotte Odgaard, "Responsibility to Protect (R2P) Goes to China: An Interpretivist Analysis of How China's Coexistence Policy Made It an R2P Insider" (paper presented at the International Studies Association convention, San Francisco, April 4–7, 2018).



its disregard for civil and political rights, as witnessed by the crackdown on human rights lawyers and defenders, are key sources of European skepticism toward China's ability to play a constructive normative role.<sup>42</sup> In 2018, China worked with states such as Sudan, Syria, and Venezuela to push a resolution through the UN Human Rights Council that promotes human rights by way of “mutually beneficial” or “constructive” cooperation. The resolution does not negate individual rights but emphasizes interstate cooperation. Whereas the United States opposed the proposal, the EU abstained due to the vagueness of the text.<sup>43</sup> The incident indicates that Europe still considers the jury to be out as to whether China's domestic human rights policies shed light on the positions that Beijing will take on future international human rights issues. As China's presence in the region grows, Europe is also closely watching to assess whether it will be subject to Chinese soft-power influence such as the large-scale financing of academic cooperation and strategic media communications.<sup>44</sup> However, on global normative issues, Europe is hesitant to choose sides between the United States and China as long as China is partially cooperative regarding Europe's liberal internationalist agenda.

Thus, at this early stage of U.S.-China competition, Europe is still trying to cooperate with both countries. The EU continues to prefer liberal transatlantic cooperation across a wide range of security, economic, and normative issues. At the same time, it works with China on preserving the central role of multilateral institutions and diplomacy at a time when the United States is putting unilateral measures and national interests first. China's tendency to revise multilateral institutions from within, while demonstrating domestic indifference to liberal political values such as the rule of law, democracy, and good governance, calls into question whether Europe and China have compatible interests and preferences. As in the economic sphere, Sino-U.S. competition is pushing Europe to develop instruments that allow it to pursue regional interests independently from Washington and Beijing. In the following section, this chapter investigates Europe's efforts to advance these interests.

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<sup>42</sup> European Commission, “EU-China—A Strategic Outlook.”

<sup>43</sup> François Godement, “China's Promotion of New Global Values,” in Tellis, Szalwinski, and Wills, *Strategic Asia 2019*, 358–59.

<sup>44</sup> Fidel Sendagorta, “Triangle in the Long Game,” Belfer Center for Science and International Affairs, Project on Europe and the Transatlantic Relationship, June 2019, 66, <https://www.belfercenter.org/publication/triangle-long-game>.

## European Responses to U.S.-China Competition

### *Geopolitical Responses*

Europe can no longer rely on transatlantic cooperation for meeting challenges. The president of the European Council Donald Tusk stated in May 2018 that the EU must be prepared to act alone without the United States.<sup>45</sup> China is not an alternative to the United States because of fundamental differences of interests and worldviews. However, on some issues, Europe and China have sufficient common interests to cooperate. The EU Commission's Strategic Outlook seeks reciprocal conditions governing relations with China to protect European economies against the distortive effects of Chinese economic practices.<sup>46</sup> But the EU's intention to cooperate with Beijing on climate change, interconnectivity, and the Iran nuclear deal has also encouraged it to define a platform for cooperation that is distinct from U.S. policies.

Europe is attempting to become more self-reliant by diversifying its international partnerships and multilateral institutional connections. U.S. pro-Israeli policies stop Washington from seeking cooperation with the League of Arab States. By contrast, the EU has established cooperation with this regional institution consisting of 22 member states in North Africa, the Horn of Africa, and Arabia. The two sides seek cooperation on the common security concerns of terrorism, radicalization, and organized crime. In addition, Europe's rapprochement with the league is a means of countering growing Russian and Chinese influence. The EU can cooperate with the Arab League because on some political issues, such as the 1967 Israeli settlements in Palestinian territories, the EU agrees with the Arab countries rather than with the United States.<sup>47</sup>

South Korea was the first Asian country to establish a trade deal with the EU in July 2011.<sup>48</sup> Since 2017, the EU also has enhanced its cooperation with Japan, the Association of Southeast Asian Nations (ASEAN), India, and Australia to facilitate an independent European influence in Asia. With these countries, the EU shares a commitment to free trade, multilateralism, and a rules-based order that protects the legal equality of states against great-power dominance. The EU and Japan acceded to an economic partnership agreement

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<sup>45</sup> Mehreen Khan, "EU's Tusk: 'With Friends Like Trump, Who Needs Enemies?'" *Financial Times*, May 16, 2018, <https://www.ft.com/content/c3002464-5907-11e8-b8b2-d6ceb45fa9d0>.

<sup>46</sup> European Commission, "EU-China—A Strategic Outlook."

<sup>47</sup> European Council, "Sharm El-Sheikh Summit Declaration," February 25, 2019, <https://www.consilium.europa.eu/en/press/press-releases/2019/02/25/sharm-el-sheikh-summit-declaration>.

<sup>48</sup> European Commission, "Countries and Regions: South Korea," May 7, 2019, <http://ec.europa.eu/trade/policy/countries-and-regions/countries/south-korea>.

in December 2017, sending a powerful signal against protectionism to the United States and against undermining market economic principles to China.<sup>49</sup> In October 2018 the EU and Singapore signed a landmark free trade agreement (FTA), which Europe sees as a pathfinder to a wider FTA with ASEAN.<sup>50</sup> The EU contributes considerable capacity building to ASEAN to provide alternatives to China's BRI. The budget for 2014 to 2020 provides approximately 200 million euros for economic integration and 2 billion euros for poverty reduction and connectivity.<sup>51</sup> Since 2018, maritime security has become a focus area for EU-India cooperation. This focus includes the stationing of Indian escorts for humanitarian aid deliveries from the EU, cooperation on antipiracy efforts, and the strengthening of the links between European and Indian naval forces.<sup>52</sup> Substantial EU-Australian cooperation began to take shape in August 2017 when the two sides established a security dialogue. In June 2018, the EU and Australia began negotiating an FTA.<sup>53</sup>

The EU's heightened cooperation with Japan, South Korea, Australia, India, and ASEAN complements U.S. efforts to expand relations with liberal Indo-Pacific states. However, EU priorities deviate from U.S. priorities in that they put a higher premium on multilateral institutional cooperation and comprehensive FTAs than on unilateralism and protectionism. Europe's diversified strategic partnerships leave the door open for enhanced transatlantic cooperation in Asia. U.S. and European policies in Asia aim to push back at unsolicited Chinese economic and security policies. Their preferences for using different instruments to achieve this goal can be seen as complementary, provided that both sides accept that they have conflicting policies on some particular geopolitical and geoeconomic issues such as the Arab-Israeli conflict, the Iranian nuclear issue, and comprehensive FTAs.

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<sup>49</sup> European Commission, "Key Elements of the EU-Japan Economic Partnership Agreement—Memo," December 12, 2018, <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1955>.

<sup>50</sup> Zakir Hussain, "Singapore, European Union Sign Landmark Free Trade, Partnership Agreements," *Straits Times*, October 20, 2018, <https://www.straitstimes.com/world/europe/singapore-eu-sign-landmark-free-trade-partnership-agreements>.

<sup>51</sup> Mission of the European Union to ASEAN, "40 Years of EU-ASEAN Partnership and Prosperity: Trading and Investing Together," 2016/17, 28, [https://eeas.europa.eu/sites/eeas/files/eu\\_asean\\_trade\\_investment\\_2017.pdf](https://eeas.europa.eu/sites/eeas/files/eu_asean_trade_investment_2017.pdf).

<sup>52</sup> Delegation of the European Union to India and Bhutan, "European Union Naval Forces—Port Visit to Mumbai," January 25, 2019, [https://eeas.europa.eu/delegations/india/57118/european-union-naval-forces-port-visit-mumbai\\_en](https://eeas.europa.eu/delegations/india/57118/european-union-naval-forces-port-visit-mumbai_en).

<sup>53</sup> "Australia-European Union Free Trade Agreement," Department of Foreign Affairs and Trade (Australia), June 18, 2019, <https://dfat.gov.au/trade/agreements/negotiations/aeufta/Pages/default.aspx>; and "Framework Agreement between the European Union and Its Member States, of the One Part, and Australia, of the Other Part," Department of Foreign Affairs and Trade (Australia), <https://dfat.gov.au/geo/europe/european-union/Documents/european-union-australia-framework-agreement.pdf>.

### *Security and Defense Responses*

Doubts about the United States' commitment to European security and defense encourage Europe to redirect its security and defense policies. Germany and France, in particular, have pursued initiatives to kick-start European ambitions to develop an independent defense profile. The EU's next budget for 2021 to 2027 will be the first to directly allocate EU funding to defense.

In December 2017 the European Council decided to establish the Permanent Structured Cooperation (PESCO), in which 25 EU member states participate. This framework for defense cooperation was the result of a German-French compromise and allows member states to develop joint defense capabilities and invest in shared projects. By November 2018, the projects covered areas such as training, capability development, cyberdefense, and operational readiness on land, at sea, and in the air.<sup>54</sup> Although the European Council regards PESCO as complementary to NATO,<sup>55</sup> the United States views it as a competitor and as an example of Europe's unwillingness to engage in mutually beneficial defense cooperation.<sup>56</sup> In September 2017, France launched the European Intervention Initiative to equip Europe with a common intervention force, defense budget, and doctrine for action to enable European militaries to act convincingly together within a decade. France, Germany, Denmark, Belgium, the Netherlands, Spain, Estonia, Portugal, the United Kingdom, and Finland are members. Germany has criticized the initiative for not being sufficiently integrated into EU institutions to be open to all member states. However, the initiative ensures that European states that are not part of the EU's common security and defense policy, such as Britain and Denmark, are included in European defense projects. In addition, it sets out to create a common threat perception and shared instruments to address these threats.<sup>57</sup> At a time of mounting threats from Russia, North Africa, the Middle East, and Asia, this effort to develop a common strategy is essential to establishing a credible European defense. German-French quarrels over

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<sup>54</sup> "Defence Cooperation: Council Assesses Progress Made in the Framework of PESCO after First Year of Implementation," European Council, Press Release, May 14, 2019, <https://www.consilium.europa.eu/en/press/press-releases/2019/05/14/defence-cooperation-council-assesses-progress-made-in-the-framework-of-pesco-after-first-year-of-implementation>.

<sup>55</sup> Dick Zandee, "PESCO Implementation: The Next Challenge," Clingendael Institute, Policy Report, September 28, 2018, <https://www.clingendael.org/publication/pesco-implementation-next-challenge>.

<sup>56</sup> Sebastian Sprenger, "European Union Rejects U.S. Claims to Internal Defense Coffers," *Defense News*, May 16, 2019, <https://www.defensenews.com/global/europe/2019/05/16/european-union-rejects-us-claims-to-internal-defense-coffers>.

<sup>57</sup> Frédéric Mauro, "The European Intervention Initiative: Why We Should Listen to German Chancellor Merkel," Institut de Relations Internationales et Stratégiques, July 16, 2018, <https://www.iris-france.org/115776-the-european-intervention-initiative-why-we-should-listen-to-german-chancellor-merkel>.

whether inclusion or ambition should be prioritized are minor rifts in their fundamental agreement about the need to ensure that the region can defend itself at a time of waning U.S. defense commitments to Europe.

These European defense initiatives are in the early planning stages, and it is too early to assess whether their implementation has been successful. However, the inclusion of countries that are skeptical of the EU, such as Britain and Denmark, in the construction of a European defense profile indicates that the structural forces for moving Europe toward greater unity on defense issues trump tendencies to regional fragmentation.

In the Indo-Pacific, Europe has begun to establish the preconditions for an independent security and defense presence, having realized that economic instruments of influence may be insufficient to address China's geopolitical agenda. Security concerns such as ensuring open shipping lanes in key trade corridors and guarding against the threat posed by China's cyberwarfare capabilities are as important to Europe as they are to the United States.<sup>58</sup> However, the EU is distancing itself from U.S. pressures to adopt a confrontational stance against China and thus needs to develop an independent Asian security and defense presence. EU institutions can facilitate a greater presence, but they do not have the powers to lead these efforts.

France has emerged as Washington's main European partner in adding military strength in Asia. Since 2016, France has mobilized support for an annual European deployment in the Indo-Pacific with a rotating cast from other European countries.<sup>59</sup> Initially, the UK was France's main partner, deploying vessels to conduct operations in support of freedom of navigation in the South China Sea. However, with Britain voting to withdraw from the EU, it is no longer positioned to play a key role in revitalizing transatlantic security cooperation.<sup>60</sup> At the same time, France is careful to maintain a balancing act of strengthening defense cooperation with the United States without alienating China. For example, in May 2019 a French air-defense destroyer sailed through the South China Sea without emulating the United States in conducting exercises close to Chinese-claimed features. However, without directly challenging China's presence, France still signaled that it considers the South China Sea to be international waters. Likewise, in April 2019 a French frigate transited the Taiwan Strait. The Chinese navy shadowed

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<sup>58</sup> Matthew Karnitschnig, "For NATO, China Is the New Russia," *Politico*, April 4, 2019, <https://www.politico.eu/article/for-nato-china-is-the-new-russia>.

<sup>59</sup> Jean-Yves Le Drian, "The Challenges of Conflict Resolution" (speech at Shangri-La Dialogue, Singapore, June 5, 2016).

<sup>60</sup> For further discussion, see Liselotte Odgaard, "European Engagement in the Indo-Pacific: The Interplay between Institutional and Naval Diplomacy," *Asia Policy* 14, no. 4 (2019): 129–59.

the frigate, and China later disinvited France to the navy's 70th anniversary celebration in Qingdao. Although France did not plan to attend the naval parade, the maneuver effectively singled out France as a culprit. China's 2019 defense white paper states that the People's Liberation Army will resolutely defeat any country attempting to separate Taiwan from China and take actions to safeguard national unity at all costs.<sup>61</sup>

With China's navy expanding at a rapid clip, France's naval diplomacy has been well received in Washington, which is looking for partners willing to adopt hard-power responses to China's growing presence. The French tradition of a strong and independent defense profile and the country's Indo-Pacific territories provide it with unique strengths. By joining forces with like-minded Asian partners and including its overseas territories in base-sharing arrangements, France could help prove the point that European contributions to Indo-Pacific security are not to be dismissed. It remains to be seen in coming years whether other European states also contribute capabilities to the French effort on a scale that gives Europe, and not just France, a substantial regional defense footprint.

Europe is still in the early stages of developing an independent security and defense profile. Minor skirmishes between Germany and France over the relative importance of inclusiveness versus ambition are not enough to override the structural pressures for European countries to work together on independent defense capabilities.

### *Economic Responses*

The EU is an important trading partner with both the United States and China. Approximately 30% of the EU's exports and more than 12% of its imports are from the United States, while more than 10% of its exports and almost 22% of its imports are from China. This makes the United States the EU's largest trade partner and China its second-largest trade partner.

The EU's 2019 summit statement with China demonstrated mutual interest in cooperation on issues where cooperation with the United States is impaired, such as free trade, WTO reform, and diplomacy toward Iran. It also committed China to addressing key European concerns regarding market access, discriminatory practices toward European companies, and forced technology transfers.<sup>62</sup> The agreement reflects enhanced European unity toward China and the two sides' mutual interest in signaling to Washington that they have alternative partners if the United States does not compromise.

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<sup>61</sup> See Odgaard, "European Engagement in the Indo-Pacific."

<sup>62</sup> Author's interview with an EU government official, Washington, D.C., April 2019; and European Commission, "EU-China—A Strategic Outlook."

Stalled U.S.-European trade negotiations, postponed due to the U.S.-China trade war, are seen as a litmus test for the future of transatlantic relations.<sup>63</sup> Trade agreements with Asian states give Europe attractive alternatives to the United States. The EU's willingness to prioritize other trade partners and the United States' ongoing demands to include agriculture in negotiations, despite the EU's clear unwillingness to do so, indicate that both sides need to make significant compromises to restart negotiations.

On industrial policy, the EU performs an advisory role with some powers of enforcement toward the member states, making it harder for Europe to act as a unified bloc. China has rolled out BRI with negligible European participation in the process. Its state-focused economic policies have challenged market economic principles rejecting intellectual property theft, forced joint ventures, and unfair competition due to state subsidies. These differences demonstrate that China is an economic competitor to the EU in the pursuit of technological leadership.<sup>64</sup> China's practices have encouraged cooperation between the EU institutions and its member states on establishing defensive mechanisms to ensure a more balanced and reciprocal economic relationship with China. The EU Commission's ten action points on industrial policies to protect member states against the downsides of Chinese economic practices provide a platform of knowledge and networking that is intended to facilitate cooperation on defining best practices when entering into investment arrangements with Chinese actors.<sup>65</sup> China endorsed the action points by signing a joint statement at the 2019 EU-China summit, which provides Europe with a green light for closely surveilling Chinese compliance with European market economic regulations.<sup>66</sup>

The unfair advantages of Chinese industrial giants such as Huawei have sparked a debate in the United States and Europe about how to ensure competitiveness, either by strengthening antitrust regulations to protect start-up companies and consumer rights or by allowing for mergers with the economies of scale that let them compete with Chinese companies. In 2019 the European Commission blocked a merger of the largest regional suppliers in the rail market, Alstom and Siemens, despite prior French and German governmental approval, because it believed that the merger would harm competitiveness. The merger was meant to create a European match for China's state-owned China Railway Rolling Stock Corporation, which is forecast to become dominant in global rail markets. The case has sparked a

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<sup>63</sup> Author's interview with an EU government official, Washington, D.C., April 2019.

<sup>64</sup> European Commission, "EU-China—A Strategic Outlook."

<sup>65</sup> *Ibid.*

<sup>66</sup> "EU-China Summit Joint Statement," European Council, April 9, 2019, <https://www.consilium.europa.eu/fr/press/press-releases/2019/04/09/joint-statement-of-the-21st-eu-china-summit>.

debate on how to reconcile European industrial and competition policies in a way that ensures that European companies are sufficiently sizeable to enjoy economies of scale that allow them to compete with gigantic U.S. and Chinese companies with major financial resources. This must be balanced by the concern not to violate European consumer interests in maintaining multiple European companies in any given manufacturing and service sector to ensure reasonable price levels and long-term industrial interests that allow innovative start-up companies to enter European markets.<sup>67</sup>

Europe recognizes that the issue of standards will be key in the development of new technologies. The lack of unified EU rules brings additional costs to companies and constitutes a security problem. In 2019 the president of the European Commission, Ursula von der Leyen, pledged that upgrading safety and liability rules for the development of digital platforms, services, and products and for the completion of the EU's proposed digital single market—which would eliminate internet barriers within the bloc—is a priority. In attempting to standardize the patchwork of national regulations, the EU intends to put particular emphasis on regulating artificial intelligence by harmonizing rules across the bloc and creating a dedicated regulator to ensure oversight and enforcement.<sup>68</sup>

Negotiations for a comprehensive EU-China agreement on investments have been ongoing since 2013. This would be “a key tool in rebalancing investment relations and in securing fair and equal treatment for EU companies operating in China.”<sup>69</sup> While the outcome of these negotiations remains unknown, in 2019 an EU investment screening system entered into force. Chinese acquisitions in strategic sectors, such as semiconductors, robotics, and aerospace, have helped promote European unity.<sup>70</sup> The screening system will affect intangible technology transfers as well as China's targeting of Europe to acquire control or influence over European undertakings that may have repercussions for critical technologies, infrastructure, or sensitive information.<sup>71</sup> Although this leaves out export controls in areas such as

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<sup>67</sup> Konstantinos Efstathiou, “The Alstom-Siemens Merger and the Need for European Champions,” Bruegel, March 11, 2019, <https://bruegel.org/2019/03/the-alstom-siemens-merger-and-the-need-for-european-champions>.

<sup>68</sup> Valentina Pop, “No Relief for Big Tech under New EU Leadership,” *Wall Street Journal*, September 2, 2019, <https://www.wsj.com/articles/no-relief-for-big-tech-under-new-eu-leadership-11567428651>.

<sup>69</sup> European Commission, “EU-China—A Strategic Outlook.”

<sup>70</sup> Mathieu Duchâtel, “EU-China Relations Face a Bumpy Road in the Year Ahead,” *South China Morning Post*, January 5, 2019, <https://www.scmp.com/news/china/diplomacy/article/2180817/eu-china-relations-face-bumpy-road-year-ahead>.

<sup>71</sup> “Regulation (EU) 2019/452 of the European Parliament and of the Council of 19 March 2019 Establishing a Framework for the Screening of Foreign Direct Investments into the Union,” *Official Journal of the European Union*, March 19, 2019, <https://eur-lex.europa.eu/eli/reg/2019/452/oj>.



education and research, it is a promising beginning to the restructuring of EU-China relations in a way that takes the competitive elements seriously.

The EU's industrial policy initiatives address long-standing complaints in European business communities that Brussels has not offered guidelines for proper conduct regarding investment agreements with China. Companies focus on making a profit, and the Chinese market is attractive. For fear of being left out, most companies accept short-term gains in exchange for the transfer of know-how, even if Europe suffers long-term economic losses as a result.<sup>72</sup> It remains to be seen whether Chinese and European businesses comply with the EU's industrial policy guidelines. This will partially depend on the member states' adoption of legislation that reflects EU recommendations and partially on the EU's ability to develop coherent and enforceable regulations. Recent developments indicate that, although Europe may have a long way to go before its industrial policies offer sufficient protection against illicit Chinese business practices, progress has been made.

The Italian memorandum of understanding (MOU) on BRI in April 2019 did not receive much applause in Brussels. The EU refrained from signing on to BRI in 2017 because the initiative does not ensure adherence to basic EU and WTO market economic rules. However, the Italian MOU is in line with EU industrial and economic policies and arguably even makes progress on persuading China to sign on to European and global economic standards. The MOU commits China to transparency, reciprocity, openness, and environmental and financial sustainability, and the multilateral Asian Infrastructure Investment Bank (AIIB) is mentioned as the bilateral financial cooperation channel rather than murky Chinese banks.<sup>73</sup> Moreover, at the second BRI Forum held in April 2019, the leaders' joint communiqué stressed the importance of debt sustainability, environmental sustainability, transparency, and the rule of law.<sup>74</sup> At the inaugural forum two years ago, Beijing was not willing to adopt such language, despite the fact that doing so might have persuaded the EU to endorse BRI.<sup>75</sup> China is known to be long on words and short on actions when it comes to committing to demands that are not aligned with its interests and practices. Nevertheless, widespread

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<sup>72</sup> Author's interview with a Danish executive officer from the Danish Industry Association, Copenhagen, November 2018.

<sup>73</sup> Giulio Pugliese, "As Rome Embraces the New Silk Road, Beijing May Be Turning the Corner," *South China Morning Post*, April 6, 2019, <https://www.scmp.com/news/china/diplomacy/article/3004386/rome-embraces-new-silk-road-beijing-may-be-turning-corner>.

<sup>74</sup> "Joint Communiqué of the Leaders' Roundtable of the 2nd Belt and Road Forum for International Cooperation," Ministry of Foreign Affairs of the People's Republic of China, April 27, 2019, [https://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1658766.shtml](https://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1658766.shtml).

<sup>75</sup> Mathieu Duchâtel, "China's Flexibility on Display at the Belt and Road Forum," Institut Montaigne, April 25, 2019, <https://www.institutmontaigne.org/en/blog/chinas-flexibility-display-belt-and-road-forum>.

criticism of Chinese BRI practices and cancellations of projects could ensure greater future Chinese compliance with such agreements.

Europe is also adopting offensive mechanisms to address the challenges posed by BRI. The 2018 Europe-Asia connectivity plan offers alternatives to the initiative across a wide range of security, trade, and cultural issues.<sup>76</sup> Although it is too early to assess its effects, the plan complements similar initiatives from the United States, which launched the Indo-Pacific infrastructure initiative in 2018, and from Japan, which established the Partnership for Quality Infrastructure Initiative in 2015. Multiple liberal alternatives are emerging to BRI, further increasing the likelihood of greater Chinese compliance with standards that Europe considers preconditions for economic cooperation.

In sum, Europe and the United States largely agree on the substance of their responses to illicit Chinese trade and investment practices. However, growing U.S. willingness to question the benefits of free trade and multilateral economic regulatory standards has prompted the emergence of independent European responses to China's economic challenges. These responses are founded on conditional cooperation with China rather than the U.S. model of competing with China across the board.

### *Normative Responses*

The EU is committed by treaty to the values of human dignity, freedom, democracy, equality, the rule of law, and human rights.<sup>77</sup> The EU was awarded the Nobel Peace Prize in 2012 for its work on these issues. According to the Nobel committee, the stabilizing role that the EU has played has helped transform most of Europe from a continent of war to a continent of peace.<sup>78</sup> The rise of authoritarian populist governments in Europe, however, has challenged these normative foundations of the EU and provoked considerable debate. EU skeptics in Washington argue that the greatest threats to European unity do not come from the United States but from Europe itself.<sup>79</sup>

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<sup>76</sup> European Commission, "Connecting Europe and Asia: Building Blocks for an EU Strategy," September 19, 2018, [https://eeas.europa.eu/headquarters/headquarters-homepage/50724/connecting-europe-and-asia-building-blocks-eu-strategy\\_en](https://eeas.europa.eu/headquarters/headquarters-homepage/50724/connecting-europe-and-asia-building-blocks-eu-strategy_en).

<sup>77</sup> "Consolidated Versions of the Treaty on European Union and the Treaty on the Functioning of the European Union," *Official Journal of the European Union*, December 13, 2007, <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:12016ME/TXT&from=EN>; and "Charter of Fundamental Rights of the European Union," *Official Journal of the European Union*, December 13, 2007, <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:12016P/TXT&from=EN>.

<sup>78</sup> "The Nobel Peace Prize for 2012," Norwegian Nobel Committee, Press Release, October 12, 2012, <https://www.nobelprize.org/prizes/peace/2012/press-release>.

<sup>79</sup> Walter Russell Mead, "Europe's Challenge Is Decline, Not Trump," *Wall Street Journal*, February 18, 2019, <https://www.wsj.com/articles/europes-challenge-is-decline-not-trump-11550519599>.

The 2019 elections for the European Parliament did not see the broader gains for nationalist populist parties that many polls had projected. Although these parties did win a majority of the national vote in France, Italy, and the UK, there was a surge in support for liberal and green parties in France and the UK, as well as in Germany.<sup>80</sup> Perhaps more importantly, the differences within nationalist parties over issues such as migration and Russia cloud prospects for a united political right. The big voter turnout for the elections may be the most important trend. More than 50% of European voters participated, which was the highest turnout in two decades and a sharp increase from the last election in 2014.<sup>81</sup> The high turnout testifies to the widespread recognition in Europe that Brussels has a major influence on people's lives. That realization bodes well for Europe's ability to move toward greater unity.

Much attention has been given to the rise of parties in Europe with hard-line views on immigration and national sovereignty. Hungary and Poland have been singled out as EU countries that do not subscribe to basic European values of human rights. They view states such as Singapore, China, and Russia as political models, while abolishing independent judiciaries, changing the electoral system to favor the incumbent, exercising political control over the media, and nationalizing large parts of the private sector.<sup>82</sup> Such reforms constitute a broad assault on European political, economic, and social values. The U.S. administration's 2019 charm offensive in Eastern Europe to push back at growing Chinese influence as a result of the 17+1 initiative has been received with suspicion in Europe. Many in the region see this effort as fuel for the nationalist populist wave that has spread across the Western world because of the focus on economic deals that favor the United States rather than on the erosion of democracy.<sup>83</sup>

Despite all the fuss about the rise of nationalist populist forces in Europe, even in the most hard-nosed nationalist Eastern European countries there is little appetite for leaving the EU. A survey of the 28 EU member states found that 61% of respondents believe that their country's EU membership is beneficial, and 68% believe that their country has gained from being part of the EU. Support has returned to the peak level last recorded between the fall of the Berlin Wall in 1989 and the adoption of the Maastricht Treaty in 1992.

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<sup>80</sup> "European Parliament 2019: Election Results," Bloomberg, June 7, 2019, <https://www.bloomberg.com/graphics/2019-european-parliament-elections>.

<sup>81</sup> Meg Anderson, "4 Takeaways from the European Parliament Election Results," NPR, May 27, 2019, <https://www.npr.org/2019/05/27/727293356/4-takeaways-from-the-european-parliament-election-results>.

<sup>82</sup> Dalibor Rohac, "Authoritarianism in the Heart of Europe," American Enterprise Institute, August 2018.

<sup>83</sup> Marc Santora, "In Eastern Europe, U.S. Officials Talk Deals, Not Erosion of Democracy," *New York Times*, February 15, 2019, <https://www.nytimes.com/2019/02/15/world/europe/pence-pompeo-eastern-europe.html>.

If a referendum on membership were held in each country, an absolute majority of respondents in 25 member states would vote to remain in the EU, while a plurality of respondents still share this view in the remaining 3: Italy, the Czech Republic, and the UK.<sup>84</sup> The main bearer of anti-liberal values among the EU heads of state, Hungarian prime minister Viktor Orbán, is reportedly among the most cooperative participants in the EU's work on most internal issues.<sup>85</sup>

These trends indicate that there is strong support for European unity because of a widespread recognition that only if Europe acts collectively will it carry enough weight to exercise influence in an era of U.S.-China competition. The political chaos of Brexit has driven the point home in EU-skeptical countries that they must work within the union to exercise influence. The low level of support for the nationalist populists in Denmark's 2019 election for the European Parliament exemplifies this tendency.<sup>86</sup> The rise of authoritarian populism reflects greater popular engagement in Europe, and with that comes a wider spectrum of voices, including those critical of EU institutions. This development does not mean that Europe is abandoning its value base, but it does mean that values promoted by specific policies must be directly tied to European interests. For example, extensive freedom of navigation and overflight rights serve European economic interests. This type of argument will increasingly define Europe's future international engagement.

## Consequences and Political Implications

Paradoxically, the challenges that U.S.-China competition pose to European unity have increased the unity of the region. A United States that is increasingly skeptical of Europe and focuses more on its Asian partners, and a China that is rolling out its economic vision across Europe, with little concern for liberal market economic standards, help raise regional awareness that sovereignty is best exercised by working within Europe's institutional frameworks. This realization that uniting is necessary to exercise influence in a world of volatile alignment patterns and faltering global institutions facilitates a tendency to define European interests and to prioritize them over normative concerns. Interest-based policies allow EU institutions to accommodate the rise of authoritarianism and nationalism. The main drivers of greater unity are Germany and France. These countries have taken the lead

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<sup>84</sup> "Spring 2019 Eurobarometer: Closer to the Citizens, Closer to the Ballots," European Parliament, Special Eurobarometer 91.1, 2019.

<sup>85</sup> Author's interview with an EU government official, Washington, D.C., April 2019.

<sup>86</sup> "European Parliament 2019: Election Results."

in developing innovative institutions that allow Europe to position itself as a strategic influence beyond its traditional stronghold of trade. Industrial policy and security and defense policy are areas in which a division of labor is emerging between the general recommendations of the EU institutions and the groups of countries that manage implementation.

Europe has looked to China as an alternative partner on some issues. For example, it does not share the U.S. view of China as a strategic opponent across the board and is likely to continue to work with Beijing on issues such as trade, Iran, and UN peacekeeping. However, China's implementation of economic policies in Europe without concern for European liberal values has caused the region to exuviate its trust in China's commitment to the rules-based international order. Likewise, the use of international institutions and agreements to advance Chinese interests, often at the expense of European interests, has compelled Europe to establish defensive and offensive mechanisms against Chinese policies that are considered detrimental to European stability and prosperity. Future cooperation between Europe and China is thus likely to be based on a more cautious approach and include continuous reassessments of the benefits derived from cooperation.

In an era of escalating U.S.-China competition, transatlantic cooperation continues to be the cornerstone of European efforts to strengthen regional unity and global influence. The challenges that China poses to U.S. security, economic prosperity, and global leadership encourage the United States to look for partners with both vested interests in pushing back at Chinese behavior and the capabilities to deliver meaningful contributions. Europe remains the most reliable and capable partner in this venture. It is the only other actor with a major global economic presence and worldwide security interests whose social, political, and economic structures are built on liberal values such as private-sector competition, liberal democracy, and individual freedom. This shared transatlantic identity aligns the United States and Europe regarding fundamental objectives such as basing economic prosperity on competition rather than on monopolistic behavior and state support, promoting sociopolitical stability through information sharing and freedom of expression rather than surveillance and oppression, and building security through freedom of movement and mutual defense obligations rather than spheres of influence and coercion. The challenges that China presents, such as the economic advancement of large state-owned enterprises, intellectual property theft and unsolicited information sharing, and encroachments on freedom of navigation, are of equal concern to the United States and Europe.

Transatlantic differences of interest are mainly instrumental. These differences emerge in quarrels over the usefulness of multilateral institutions in a world that is showing signs of the Balkanization of international

standards. Another issue of contention is determining the proper balance between the use of force, diplomacy, and the rule of law at a time when coercive measures, authoritarian political mechanisms, and disregard for the sanctity of international treaties are gaining traction. However, the United States and Europe agree that China is at least partially promoting these tendencies.

Answering the question of how to manage these challenges could be facilitated by recognizing that there is a lot of low-hanging fruit to be picked in focusing on the complementarity of U.S. and European instrumental preferences. For example, EU–Arab League summits help address rising Chinese influence in the Arab world in ways that are not feasible for the United States. European economic, security, and defense partnerships with U.S. allies in Asia help build a formidable counterbalancing coalition against China and open avenues for coordinating infrastructure projects to push back against BRI. The right mix of U.S. punitive measures and European diplomacy may help keep Iran’s destabilizing influence on the Middle East at bay. The establishment of independent European defense forces that are capable of addressing regional and global security challenges to partners in the Indo-Pacific and Eurasia and to principles such as freedom of navigation is necessary to defend the liberal world order. Focusing on the benefits of complementarity in transatlantic relations is key to effective cooperation on the common objective of demonstrating the superiority of liberal policies for promoting peace and prosperity.

