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Priorities For A Transatlantic China Strategy

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China presents critical economic, security, and value challenges to the transatlantic nations. Since the end of World War II, the transatlantic nations have generally faced such challenges—and opportunities—in broad alignment. For several years, however, a variety of factors ranging from President Donald Trump's "America First" approach, to the European concepts of strategic autonomy and sovereignty, to different emphases on issues ranging from security to trade to climate change have put that alignment in question. If there is to be an effective transatlantic China policy, the transatlantic nations should focus on strategic compatibility and coordination of six critical priorities and establish a "Transatlantic Coordinating Council" as a forum for discussion and coordination.

Critical Priorities

Both North America and Europe need to limit the most significant detrimental impacts of China's actions. Key challenges include: enhancing and protecting economies from China's state-driven distortive behaviors; combatting cyber espionage; establishing resilient supply chains; supporting the development and independence of the Indo-Pacific region; and deterring conflict in the East and South China Seas and over Taiwan. Additionally, there are "one world" challenges—particularly climate change and health—where China is a necessary participant for effective responses. Each of these issues is susceptible to common transatlantic approaches.



Huawei logo sits atop an apartment building in Warsaw, Poland in 2019. Poland has since signed on to the United States' Clean Network program and excluded Huawei from its 5G network. Source: Wistula/Wikimedia Commons https://upload.wikimedia.org/wikipedia/commons/1/1a/Marsza%C5%82kowska_84-92%2C_Huawei.jpg

First, China's use of subsidies and other distortive economic activities is well documented on both sides of the Atlantic, with, for example, the European Commission having highlighted China's use of "heavy subsidies to both state-owned and private sector companies."¹ As a consequence, both the United States and Europe have engaged China in negotiations intended to limit such practices. The negotiations have not been coordinated, however, even though a common approach would undoubtedly be more effective. Furthermore, a realistic appraisal of China's state-driven economic system shows the improbability of any significant change in the Chinese system. Subsidized Chinese entities will, however, be able to undercut the prices of transatlantic companies that do not receive such benefits. An illustrative example is the pricing by the Chinese telecom company Huawei that undercut the Swedish company Ericsson by 50 percent in bidding in the Netherlands market.² A key priority for North America and Europe is to establish a common approach to protecting their own markets from Chinese depredation, which would include not only subsidies, but also Chinese investment in sensitive

sectors. Coordinated use of tariffs and selective limits on Chinese imports and investments would be important factors in establishing appropriate protections. Likewise, a coordinated approach to China's state-driven economy in the context of the World Trade Organization would be valuable. Additionally, the incoming US administration will have to review the existing Phase 1 agreement with China and the European Union is currently negotiating a Comprehensive Investment Agreement with China. If transatlantic cooperation on China is to be accomplished, it would make sense for these matters to be discussed once the new administration is in place.

Second, China has used cyber espionage against the transatlantic nations, for both economic and national security advantage. A recent example has been Chinese espionage against companies seeking to develop vaccines for the coronavirus. The seriousness of the problem was highlighted by the Department of Homeland Security and the Federal Bureau of Investigation issuing a joint alert "warning...of...targeting and attempted network compromise by

1 "European Commission and HR/VP Contribution to the European Council: EU-China—A Strategic Outlook," European Commission, March 12, 2019, 5, <https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf>.

2 Pamela Lim and Melissa Goh, "Affordability and 5G Race are Reasons Why Malaysia Continues to Support Huawei, Says Telco Regulator," *Channel News Asia*, June 27, 2019, <https://www.channelnewsasia.com/news/business/huawei-5g-malaysia-support-mcmc-mahathir-11665232>.

the People's Republic of China...[of] [h]ealthcare, pharmaceutical, and research sectors working on the COVID-19 response.”³ This action by China, of course, shows complete disregard for its promise to the United States in 2016 to halt commercial cyber espionage. China's coronavirus espionage highlights the dangers faced on both sides of the Atlantic by firms seeking to develop and market emerging and advanced technologies. Companies—especially small and medium-sized companies—cannot be expected to undertake effective cyber protection against China's very significant cyber capabilities. A coordinated transatlantic approach to establishing resilient cybersecurity architectures to be utilized by businesses, but run on their behalf by expert cybersecurity providers, could be a key element in providing such protection as an important component of an effective transatlantic China strategy.⁴

Third, the coronavirus underscored the importance of resilient supply chains, and both sides of the Atlantic have taken initial steps to enhance their resilience. The European Union (EU) has undertaken a significant review of critical raw materials, as well as including resilience as a key element of its trade strategy of open strategic autonomy.⁵ The United States has issued executive orders barring transactions in the electricity bulk power and information and communications sectors with a foreign adversary that poses significant risk.⁶ Effective resilience will best be achieved, however, by the transatlantic nations working together. First, it should be made clear that North America and Europe will be considered reliable elements in one another's supply chains. Second, there will be investments required to replace reliance on certain Chinese capabilities—for example, including both the rare-earth sector and fifth-generation (5G) networks. A coordinated transatlantic approach could support both innovation and investment efficiency. Third, resilience will be enhanced by requiring key critical-infrastructure companies to, at a minimum, include non-Chinese companies in their supply

chains—a “China-plus one” approach—so that China does not have a sole or dominant position affecting critical infrastructures. Moreover, the creation of new suppliers will be more economically efficient if markets exist on both sides of the Atlantic. Providing economic incentives for the establishment of such new capabilities could be important, and transatlantic cooperation on common incentives would be valuable. Finally, both sides of the Atlantic should agree that China should be excluded from the strategic supply chains of defense and intelligence, where the transatlantic nations work extremely closely together in the context of NATO and other activities.

Fourth, each side of the Atlantic has undertaken actions to support the nations of the Indo-Pacific. The United States has its Indo-Pacific strategy, the European Union its Connecting Europe and Asia strategy, and nations including France and Germany have established their own Indo-Pacific policies. These efforts are broadly in alignment, but diplomatic coordination could enhance their impact. Moreover, additional common efforts could have significant added value. A multilateral “Blue-Green Initiative” that focuses on health, environment, water, and climate change would be of high value. The United States and the EU—along with other partners such as Canada and Japan—could undertake a coordinated approach to providing investment and technical assistance in each of these areas.⁷ Such an approach would be valuable in and of itself, but it would also act as an appropriate response to China's Belt and Road Initiative.

Fifth, deterring conflict in the East and South China Seas, and against Taiwan, is an important component of US strategy. In an interconnected world, European nations need to likewise enhance their role. Some steps have been taken. France has a significant sovereign presence in the Pacific, and both France and the United Kingdom have engaged in freedom-of-navigation activities in the South China Sea.

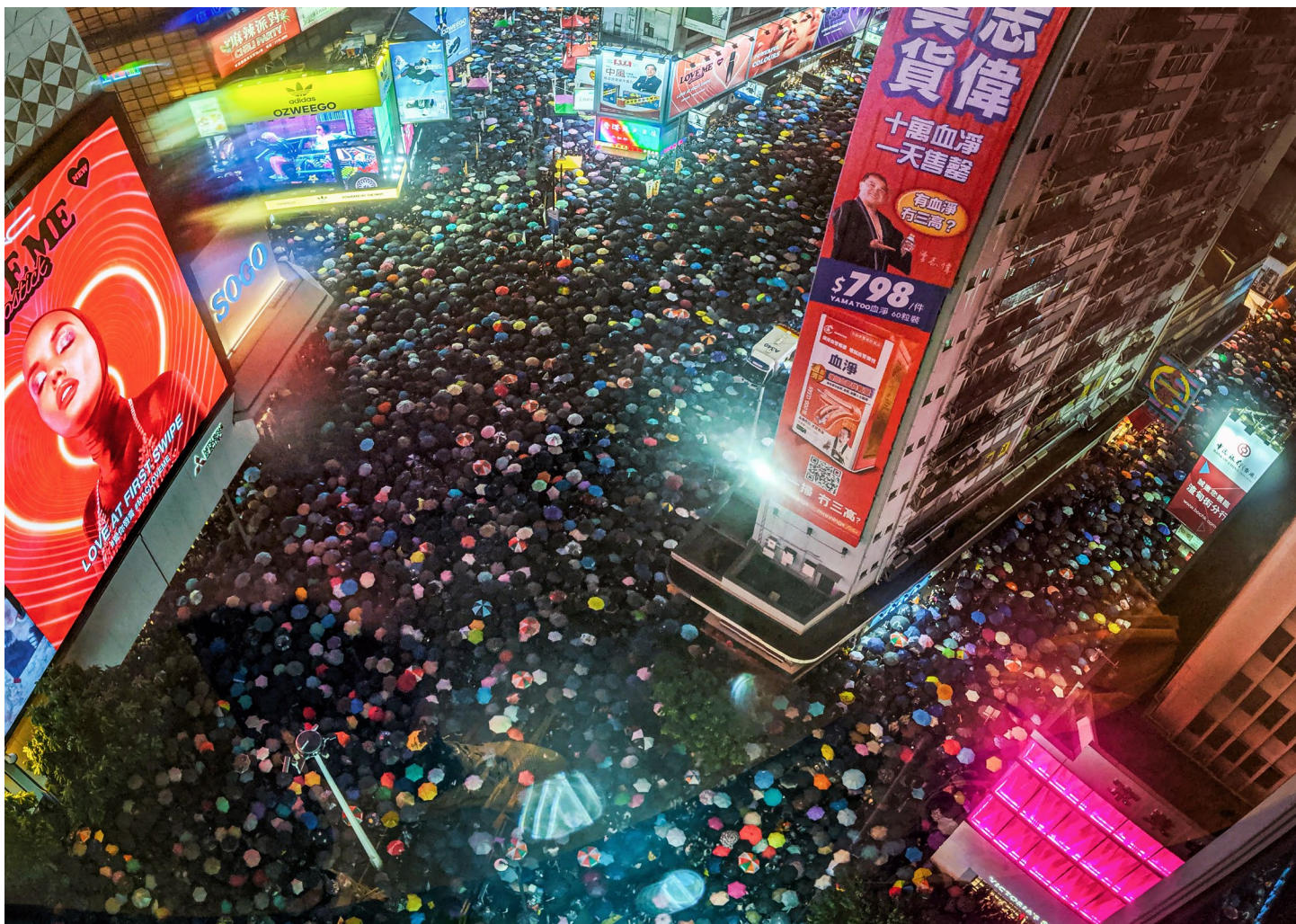
3 “Chinese Malicious Cyber Activity, Cybersecurity and Infrastructure Security Agency,” Cybersecurity & Infrastructure Security Agency, May 13, 2020, <https://www.us-cert.gov/china>.

4 Franklin D. Kramer, *Effective Resilience and National Security: Lessons From the Pandemic and Requirements for Key Critical Infrastructures*, Atlantic Council, October 2020, 28, <https://www.atlanticcouncil.org/wp-content/uploads/2020/10/Effective-Resilience-Latest.pdf>.

5 “A Renewed Trade Policy for a Stronger Europe, Consultation Note,” European Commission, June 16, 2020, https://trade.ec.europa.eu/doclib/docs/2020/june/tradoc_158779.pdf; “Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Critical Raw Materials Resilience: Charting a Path Towards Greater Security and Sustainability,” European Commission, September 9, 2020, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020DC0474&from=EN>.

6 Donald J. Trump, “Executive Order on Securing the United States Bulk-Power System,” White House, May 20, 2020, section 1(a)(ii), <https://www.whitehouse.gov/presidential-actions/executive-order-securing-united-states-bulk-power-system>; Donald J. Trump, “Executive Order on Securing the Information and Communications Technology and Services Supply Chain,” White House, May 15, 2019, section 1(a)(ii), <https://www.whitehouse.gov/presidential-actions/executive-order-securing-information-communications-technology-services-supply-chain>.

7 Franklin D. Kramer, *Managed Competition: Meeting China's Challenge in a Multi-Vector World*, Atlantic Council, December 12, 2019, <https://www.atlanticcouncil.org/wp-content/uploads/2019/12/Meeting-Chinas-Challenges-Report-WEB.pdf>.



Protesters brave heavy rain as they march against the 2019 Hong Kong extradition bill on Sunday, August 18, 2019. Source: Studio Incendo/Wikimedia Commons https://upload.wikimedia.org/wikipedia/commons/e/e6/Hong_Kong_protests_-_Panorama.jpg

Further actions would, however, be quite valuable. A significant conflict in the Indo-Pacific involving China would have high escalatory potential, and substantial consequences for international trade and economic stability. Moreover, China's actions with respect to Hong Kong and the Uighurs demonstrate its disregard for human rights, and there is little doubt that a successful Chinese takeover of Taiwan would likewise result in extinguishing of human rights. Europe should undertake a coordinated approach with the United States, as well as key nations such as Japan and Australia, to add to deterrence in the Indo-Pacific. One possibility would be a declaratory policy establishing substantial trade sanctions on China in the event of military action against Taiwan.

Sixth, there are “one world” issues--particularly climate change and health--where China is an important participant. Transatlantic collaboration on these issues is likely to be significantly enhanced once the new administration is in place.

Transatlantic Coordinating Council

The need for a new forum for the organization of a transatlantic China strategy derives from four key factors.

First, and most obviously, there would be high value in having a central place to have discussions with relevant

players. None now exists. To be sure, a US-EU dialogue on China will be of high importance. However, a US-EU meeting leaves out the nations of Canada, Iceland, Norway, and the United Kingdom. Moreover, in a number of areas, nations, in addition to the EU, need to be at the table, because nations maintain the governmental competency for many actions. Furthermore, for a variety of security issues, there will be benefits from engaging the North Atlantic Treaty Organization.

Second, the breadth of the subject matter is great, and decisions in one area will have ramifications for others. Single-subject forums—as exist for some matters—are not adequate to take into account the full scope of many issues.

Third, and related to the second point, certain issues are multifaceted in scope. For example, decisions in the telecommunications arena have security implications. Supply-chain resilience is similarly both an economic and security issue. Decisions made on the basis of values—such as not utilizing products made with forced labor—may have economic consequences. Adherence to international law includes issues in the South China Sea, the Convention on Human Rights, and the World Trade Organization.

Fourth, a number of issues will require, or benefit from, interaction with the private sector. While the center of any new forum would be governmental, flexibility to include private-sector entities, both for analysis and implementation, would be highly worthwhile.

The proposed Transatlantic Coordinating Council could be structured as a voluntary organization along the lines of the Financial Stability Board or the Proliferation Security Initiative. “The Financial Stability Board [is] a voluntary organization that establishes financial standards, which participating countries put into place via their own governmental structures; the Proliferation Security Initiative organizes voluntary cooperation among governments for counter-proliferation operations.”⁸ The European Union uses several forums including the European Council and the Council of Ministers to ensure that national interests are integrated into policy. A Transatlantic Coordinating Council would have similar value.

Strategic Compatibility and Coordination

A final question for the transatlantic nations is the appropriate conceptual framework on which to build a common transatlantic Indo-Pacific strategy. As a starting point in thinking about “strategies,” it is useful to recognize that policies that are broadly in common among and between the transatlantic entities can arise through any, or a combination of, “compatible,” “coordinated,” or “collective” efforts. Without trying to put too much weight on definitional distinctions: “compatible” would be actions that are generally parallel but taken separately; “coordinated” would be actions taken separately, but after mutual agreement; and “collective” would be actions taken jointly.

“China presents the most significant challenge to the transatlantic nations. A focus on critical priorities, the establishment of a Transatlantic Coordinating Council, and the utilization of a policy of strategic compatibility and coordination will provide the framework for an effective transatlantic China strategy.”

Analytically, any of these approaches might be quite effective, but there is a strong case for building a transatlantic alignment on the Indo-Pacific on a base of strategic compatibility and coordination, rather than the more formal approach collective action would require.

8 Frank Kramer, Bob Butler, and Catherine Lotrionte, “Raising the Drawbridge with an ‘International Cyber Stability Board,’” *Cipher Brief*, March 4, 2019, <https://www.thecipherbrief.com/raising-drawbridge-international-cyber-stability-board>.



Chancellor Angela Merkel at a video conference in the Federal Chancellery on the informal European Council and EU-China meeting. Source: Bundesregierung/Sandra Steins <https://www.bundesbildstelle.de/bpa/de/search/?sammlungid=dcx-collection-utag778uxwwexbctb3961mm>

First, Europe has adopted “autonomy” and “sovereignty” as important aspects of its approach to international relations. To be sure, autonomy does not mean an unwillingness to work with others and, more specifically, to work with the United States. But, autonomy does mean that “Europe” wants to make its own decisions. This has partly arisen as a consequence of trust issues with the United States, many exacerbated by the policies (such as on aluminum or steel tariffs) and the rhetoric of the current US administration. Equally, and probably more importantly, Europe now has the size, capabilities, inclinations, and bureaucratic structures that generate decision-making in many areas without requiring engagement with the United States.

Second, the bureaucratic structures in, and legal arrangements for, Europe differ significantly from those of the United States. Even when the broad strategy is in accord, such differences can require a degree of flexibility of ap-

proach in support of common objectives. The European Union is, of course, a main player. But, not only is it not the simplest structural entity (for example, three EU presidents combined to give a press conference after a meeting with China), it is not the only European Indo-Pacific actor. Relevant competencies are also found at national levels, and, as noted above, even nations that are part of the EU nonetheless have their own Indo-Pacific policies. For example, France has an overall strategy “for an inclusive Indo-Pacific,” as well as a strategy for “France and Security in the Indo-Pacific,” while Germany similarly recently promulgated its own formal Indo-Pacific policy. Other European nations have undertaken actions with important policy implications, such as decisions on 5G technologies or membership in the Asian Infrastructure Investment Bank. Further, adding to the complexity of approach for the United States, the nations of Canada, Iceland, Norway, and the United Kingdom sit outside the ambit of the European Union.

Third, and perhaps most obviously, the scope of a transatlantic Indo-Pacific strategy is broad. Subject matters range from diplomacy to economics to security to health to the environment. The Indo-Pacific is itself very large, and its nations are significantly diverse. Important issues arise in multiple contexts: within the transatlantic nations, in or with countries of the Indo-Pacific, and in or with China.

The degree of complexity generated by the combination of these factors underscores the value of focusing on compatibility and coordination of key priorities, rather than requiring a structured mechanism of collective action.

China presents the most significant challenge to the transatlantic nations. A focus on critical priorities, the establishment of a Transatlantic Coordinating Council, and the utilization of a policy of strategic compatibility and coordi-

nation will provide the framework for an effective transatlantic China strategy.

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