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TRANSATLANTIC COOPERATION ON ASIA AND THE TRUMP ADMINISTRATION

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Executive Summary

Transatlantic cooperation on Asia, and on China in particular, is still characterized by missed opportunities and self-imposed obstacles. Yet it would be a mistake to underplay the constructive developments that have occurred during the Trump administration. At the working level, a great deal of groundwork has now been laid for the joint efforts that will be necessary on a range of Asia policy issues.

While efforts to build closer coordination between Europe and the United States in this field go back to the mid 2000s, the shift in U.S. strategy toward greater competition with China in trade, economics, and technology—rather than military balancing alone—have given Europe greater salience in U.S. policy. The EU is a potential force multiplier and a source of additional leverage in some areas for the United States, from infrastructure finance to joint actions on Chinese economic practices. In others, such as investment screening and export controls, cooperation with Europe is a precondition for the effectiveness of U.S. policy.

As a result, despite continued differences in approach, the two sides have intensified their interactions in several areas over the last two years. China has naturally been a major focal point, in areas ranging from trade policy to Huawei's role in European telecoms networks. But there have also been efforts to deepen cooperation in the broader Indo-Pacific, from the connectivity agenda to hard security.

Practical progress in these areas has varied considerably. The trade agenda has still been held hostage to U.S. tariffs, and threats of tariffs, on the EU itself, as well as divergences over the future of the World Trade Organization (WTO). The exchanges on 5G have been a cautionary case study in the challenges of dealing with an issue that cuts across economics, technology, values, and security. Both sides still need to resolve—internally and with each other—the right balance to strike in the openness of their economic, technological, and scientific interactions with China.

Other areas, such as the proposals for closer coordination on infrastructure finance have been easier to move forward. The considerable crossover between the EU and U.S. approaches on connectivity—including the focus on mobilizing private-sector finance—and the relatively latent state of their respective efforts have made this a rare case where the two sides can collaborate closely at the inception of their planning. In the coming years, they will similarly need to join up their emerging—yet largely parallel—debates over how China reconditions European and U.S. approaches to industrial policy, data policy, supply-chain security, the defense industrial base, standard-setting, competition policy, and other areas.

As these examples illustrate, the transatlantic agenda on Asia and China is now vastly wider than it was when consultations between the United States and the EU were first put in place. Formerly niche or specialist issues have moved to the core of both sides' political, economic, and security interests. While elements of the more traditional agenda—agreeing a joint statement on Chinese militarization of the South China Sea, for instance—still have value, there is likely to be greater scope for traction in dealing with many of these geo-economic issues.

It will be difficult to achieve this without deeper-seated adjustments on both sides. Removing the existing irritants will open the door to closer cooperation on several fronts. But the prominence of these divisive issues has also delayed the reckoning on a set of hard choices—whether the United States is able to develop an approach that genuinely commands the support of a broad spectrum of partners beyond its traditional security allies in the region, and whether European countries are willing to accept that defending their values and interests is not going to be a cost-free proposition.

Transatlantic Cooperation on Asia and the Trump Administration

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During a difficult period for the transatlantic relationship, Asia policy is one of the rare areas where the United States and the European Union have found new ways to cooperate more closely, despite their differences elsewhere. However, this fact is far from obvious even to many informed observers; not least because of how little of the common transatlantic agenda has been advanced at the highest political levels. When European leaders, such as President Emmanuel Macron of France, have made the case directly to President Donald Trump for the United States to prioritize shared concerns over China's economic practices over the imposition of tariffs on the United States' European allies, they have generally been rebuffed.¹ In many other areas too, transatlantic cooperation on Asia, and on China in particular, is still characterized by missed opportunities and self-imposed obstacles.

Yet it would be a mistake to underplay the constructive developments on this front that have occurred even during the Trump administration, which build on a longer history of transatlantic cooperation over the past decade. From the White House to the Department of Defense, from the Office of the U.S. Trade Representative (USTR) to the U.S. Agency for International Development (USAID), a great deal of groundwork has been laid for joint efforts that will be necessary on a range of Asia policy issues. What is more, most of these initiatives are rooted in a strong bipartisan consensus and reflect major legislation, from the Better Utilization of Investment Leading to Development (BUILD) act to the Foreign

Investment Risk Review Modernization Act (FIRRMA) and the Export Control Reform Act (ECRA). There has also been a fair degree of continuity with previous administrations. Some of the main transatlantic consultation mechanisms on Asia were established fifteen years ago, and they have persisted in only modestly altered form ever since.

Europe—and the EU specifically—is now of greater salience to the United States' Asia policy than it was over the last decade, regardless of the state of the two sides' cooperation. When its competition with China was predominantly focused on military balancing, the United States naturally placed greater emphasis on its regional treaty allies and security partners. The Chinese military challenge has now been supplemented by wider competition in the realms of trade, economics, technology, and even ideology. As a result, it is inevitable that U.S. policymakers dealing with China and the Indo-Pacific region more broadly will have to focus more on the EU—the world's largest market, regulatory power, source of outbound investment and development aid, and hub for several key technologies and components. For Washington, the EU is a potential force multiplier and a source of additional leverage in some areas, from infrastructure finance to joint actions on concerns about Chinese economic practices. In others, such as investment screening and export controls, cooperation with the EU is a precondition for the effectiveness of U.S. policy—restrictions on China obtaining U.S. technology, for instance, cannot succeed if it can acquire the equivalent in Europe.

Determining the most effective ways for the two sides to work together will depend on the United

1 Jonathan Swan, "Trump tells Macron the EU is 'worse' than China," *Axios*, June 10, 2018

States and Europe learning the right lessons from prior experiences, with many of the opportunities and obstacles having already been explored by policymakers going back three administrations. With a view to drawing together conclusions from these precedents, the German Marshall Fund convened a series of workshops in Washington and a session in San Francisco over the last year, in conjunction with the EU Delegation to the United States. Rather than looking at broad-ranging questions about the overall alignment of the U.S. and EU approaches to China and Asia, they evaluated the current and future practical agenda in specific fields, ranging from connectivity to investment screening, 5G to Indo-Pacific security. This paper draws on those sessions to provide an overview of some of the principal areas of current or potential transatlantic cooperation on Asia, how they have evolved during the Trump administration, and factors inhibiting their further development.

Context and History

In their present form, efforts to build closer transatlantic approaches toward Asia date back to the time of the EU's abortive efforts to lift its arms embargo on China in 2004–2005. While the move was symbolic rather than reflecting any European intent to sell weapons systems to China, the ferocity of the dispute and the misunderstandings on both sides exposed the fact that exchanges between the United States and the EU over China policy—and Asia more broadly—were very underdeveloped, particularly by comparison with other areas of the transatlantic relationship. As a result, a new set of consultations on the region was rapidly established between the United States and the EU, as well as with its major member states. This enabled the two sides to maintain a regular process of updating each other, comparing notes, and finding ways to cooperate where possible. While varying somewhat in form and composition over time, these consultations were typically led by State Department and National Security Council officials on the U.S. side. Over time these were supplemented by other initiatives, including coordination mechanisms in key Asian capitals such as Beijing; Asia-Pacific

roundtables with European ambassadors in Washington; a “Quint” process conducted with the United Kingdom, France, Germany, and Italy; regular exchanges on China between the EU Directorate General for Trade and USTR; and an assortment of Track 1.5 efforts (including those run by the German Marshall Fund).

The level of attention paid to the transatlantic agenda on Asia varied considerably over the subsequent decade. At times it reflected attempts to forge closer cooperation, with the most notable such effort being initiated by Kurt Campbell during his time as U.S. assistant secretary for East Asian and Pacific affairs (2009–2013), which resulted in a joint statement by U.S. Secretary of State Hillary Clinton and EU High Representative of the Union for Foreign Affairs and Security Policy Catherine Ashton in 2012 on common EU-U.S. objectives in the Asia-Pacific.² Less frequently, the aim was to head off potential splits, such as when most of the major European states decided to become members of the Asia Infrastructure Investment Bank (AIIB), which was a catalyst for discreet discussions on China among heads of state at subsequent G7 meetings. Other areas of focus have reflected the shared challenges the two sides have been navigating in the region: the North Korean nuclear issue, the Myanmar opening, the South China Sea, support to Asian multilateral institutions, and a wide assortment of China-related economic and political issues, from human rights cases to industrial overcapacity.

Periodically, these processes achieved successes, from the EU-U.S.-Japanese case at the WTO on China and rare earths in 2012 to the pushback in 2009–2010 on China's Green Dam web-filtering software. But their main achievement was in ensuring that the United States and the EU were informed about their respective policy thinking and able to head off any misunderstandings. Surprises were rare. There was no major split for the remainder of the Bush or Obama administrations, and even the lessons from the AIIB imbroglio were quickly

² U.S. Department of State, “U.S.-EU Statement on the Asia-Pacific Region,” July 12, 2012

applied to a potential EU-U.S. dispute over China’s market-economy status, which instead became an area of close cooperation between Brussels and Washington at the WTO.

Nonetheless, transatlantic efforts lagged in important respects. Most obviously, they attracted little top-level attention in either the United States or Europe. With only a handful of exceptions, China and Asia were superseded by other issues, from Russia to the Middle East, at transatlantic summits and cabinet-level exchanges. This primarily reflected longstanding expectations about which issues merited political attention in a transatlantic context and the tendency to focus on urgent crises over long-term joint challenges. But in the background there was also a degree of hesitation on both sides. When it came to Asia policy, there was a fundamental question among all but a handful of U.S. policymakers over whether expending

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political energy on the EU was worthwhile. The lack of a significant European military presence in the region, and the difficulties the EU exhibited in forging consensus, even on clear-cut rule-of-law issues in the South China Sea, meant that European countries were seen not only as second-tier partners at best, but frustrating ones at that. Moreover, mistrust from the arms-embargo case lingered for years. The U.S. suspicion was that for the EU commercial interests in Asia would continue to take precedence over strategic seriousness. The lack of a deep bench on Asian security issues in Europe only magnified this: outside a small cluster of countries,

the pool of expertise on military challenges in the region was very shallow.

There were also reservations in Europe about placing too much emphasis on transatlantic efforts in Asia. With the EU’s attempts to define a distinct policy and profile in the region at a relatively nascent stage, there was concern about being just a “plus one” to the United States. This was not only a matter of perceptions among partners in Asia, where European countries saw clear benefits in some differentiation from the United States. European capitals also often felt that their views on or interests in Asia were not given much weight, unlike other regions where at least some degree of transatlantic to-and-fro took place. Diplomats, scholars, and business people from European countries that have been deeply absorbed with Asia for centuries—or with decades of experience dealing with communism first-hand—would roll their eyes at the frequency with which it was assumed that they needed to be “educated” by their U.S. counterparts or should just get in line behind Washington’s position. This crystallized over issues such as the EU’s bid to participate at the East Asia Summit. Europeans were unhappy at U.S. unwillingness to provide active support to the EU and believed that it was indicative of the fact that transatlantic “partnership” in Asia was going to be a one-way street. The United States, conversely, was unhappy at the unwillingness of the Europeans to do the legwork required to make the case for participation at the summit to Asian partners. Moreover, Washington saw the disproportionate level of EU focus on a multilateral summit as symptomatic of broader European concern for form over substance on strategic issues in the region.

As a result, although there was far closer transatlantic alignment of thinking by the mid-2000s than a decade before, some ad hoc practical cooperation on specific issues, and occasional rhetorical flourishes about “pivoting to Asia together,” there was no concerted effort by the United States and the EU to coordinate their approaches. Even the 2012 Ashton-Clinton statement—the high watermark of

these efforts—was followed by little implementation. Neither side was especially unhappy about this state of affairs. There was growing awareness that a more joined-up strategy would be valuable but this still had the quality of being something that would be “nice to have” if possible rather than a necessity.

The Trump Administration

The advent of the Trump administration brought immediate uncertainty about how much continuity on Asia and China policy Europe could expect. Yet, unlike in most other fields, there were fewer immediate shocks to navigate. With few appointees in critical positions in the first year of the administration, it was a challenge for European officials—as for those of all other U.S. allies—to discern or predict many dimensions of Asia policy under Trump. But the existing coordination mechanisms were maintained, and they initially featured many of the same officials who had taken part in the dialogues before, albeit now with a more restricted mandate. The formal withdrawal of the United States from the Trans-Pacific Partnership (TPP) on Trump’s first day in office in 2017 served as a warning for Europe of the administration’s trade agenda to come. But it also offered secondary benefits for the EU, including strengthening the momentum behind its trade negotiations with Asian partners such as Japan. The U.S. emphasis on North Korea had been anticipated, given that it was a function of shifting intelligence assessments about the country’s missile capabilities. This provided the major security focal point in the early transatlantic exchanges on Asia, while on the economic front there was considerable coordination with USTR on issues such as the critical case of China’s market-economy status at the WTO.

The bigger shifts came in 2018. First, the Trump administration’s Asia policy—and its China policy in particular—started to take clearer shape. The launch of the National Defense Strategy, in addition to the National Security Strategy late the previous year, signaled a more competitive approach to China. This was laid out even more forcefully in Vice President

Mike Pence’s speech at the Hudson Institute in October 2018.³ The new Free and Open Indo-Pacific strategy broadened the geographic scope of what had previously been limited to the Asia-Pacific, bringing into play a range of locations in the Indian Ocean where leading European countries have deep economic, political, and security ties—and in some cases territories. The economic dimensions of the U.S. strategy also began to mark out the elements of a clearer response to China’s Belt and Road Initiative (BRI), which the EU has been wrestling with virtually since its inception, with initial European enthusiasm giving way to concerns over the extension of Chinese domestic practices on state financing and procurement to other countries.

The Trump administration’s policy shifts on competition with China and on the Indo-Pacific were underpinned by new legislation. The BUILD act provided the financial and institutional basis for new development finance efforts, while FIRRMA and ECRA tightened controls on Chinese access to U.S. technologies in new areas. But the chief issue for the EU to navigate was the launch by the United States of a first wave of tariffs on China, which were imposed unilaterally—utilizing a set of tools that had not been deployed since the WTO was established. While the EU was largely supportive of the Section 301 actions on intellectual property theft, the initiation of Section 232 tariffs on steel and aluminum—ostensibly on “national security” grounds—primarily hit European and other allies, given that Chinese exports in these sectors had largely been cut out of the U.S. market by prior anti-dumping measures. The issue has hung over EU-U.S. cooperation ever since.

With the rebalancing in the United States’ focus in its competition with China toward strategic economic and technology issues, it increasingly became apparent to U.S. officials that European countries—and the EU itself—would be more important counterparts to U.S. policy than many in

³ Hudson Institute, “Vice President Mike Pence’s Remarks on the Administration’s Policy Towards China,” October 4, 2018

the Trump administration had initially imagined. This was helped by changes in Europe too, where a rethink on China had been taking place for reasons similar to those that drove changes in U.S. policy. These include growing concerns over the country's deepening authoritarianism and assertiveness under Xi Jinping and a more acute sense of the risks to Europe's economic future from China's domestic economic behavior and geo-economic strategy. The European shift toward a far more skeptical and critical approach was made public in the EU's Joint Communication issued last March, which labeled China a "systemic rival", but it was already well underway previously on areas ranging from investment screening to anti-dumping rules.⁴

As a result, the thrust—if not always the substance—of the Trump administration's approach to China has been viewed more sympathetically in the EU than it would have been even a couple of years earlier. The EU had also made progress in pushing elements of its broader strategy in Asia forward. Negotiating or concluding trade deals with virtually every major country in the region bar China—an approach some EU trade officials have dubbed "Asia minus one"—have been the most obvious concrete manifestation of this. But there have also been advances in other areas, from the stepping up of French-led security efforts in the South China Sea to the launch of the new EU Strategy on Connecting Europe and Asia in 2018, a first step in the response to the BRI.⁵ There have been conscious efforts to correct the fact that EU policy had been excessively Sino-centric in the 2000s, reflected in the growing number of European leaders making visits to Japan, South Korea, Indonesia, and Vietnam, as well as deepening ties with India. There was no question that most of these efforts were still a work in progress, but the shift was striking for some of the Trump administration officials who had last dealt with Europe on China and Asia during the George W. Bush administration.

⁴ European Commission, "EU-China – A strategic outlook", March 12, 2019

⁵ European External Action Service, "Connecting Europe & Asia: The EU Strategy," September 19, 2018

But, for all these elements of convergence, the differences between the United States and the EU were no less acute—and far more pronounced. European anxieties went well beyond trade to include broad concerns about the Trump administration's approach to multilateral institutions and agreements, about the risks of a "decoupling" or "new Cold War" agenda with China, and about the basic unpredictability of critical elements of U.S. policy. On the U.S. side, there were still fundamental questions about whether European countries had fully woken up to the nature of the challenge that China represented. All the other points of transatlantic division—on the Paris climate agreement, Iran, NATO, and elsewhere—also affected the political climate. Yet the impetus for closer cooperation—especially on China— was

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there nonetheless, came initially from the European side, and was articulated unusually publicly. In June 2018, the ambassadors of all EU member states in Washington signed a letter calling for cooperation in dealing with China's non-market practices, a line repeated by several European leaders.⁶ Officials in the Trump administration were already finding that on a number of the highest-priority areas in its China policy—trade, the BRI pushback, technology restrictions, 5G—the EU was either one of the principal U.S. counterparts or a critical battleground. It was also evident that in several areas

⁶ E.U. ambassadors to the United States, "An open letter on trade: The facts speak for themselves," Washington Post, June 8, 2018

of greatest interest to the United States, EU policy was no longer subject to the same spoiler tactics by some member states that had sometimes hobbled collective action in the past. While an absence of EU unanimity on traditional foreign policy issues could prevent a strong joint statement on the South China Sea, objections from the likes of Hungary or Greece could not prevent the EU from pursuing forceful trade-enforcement measures.

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initiatives with the full engagement of the Trump administration. As one European official working on Asia put it, “in the first year, we were knocking on doors in Washington and no-one answered; now we can barely keep up.” These initiatives include the trilateral process on dealing with China’s non-market practices between the trade chiefs of the United States, the EU, and Japan, who met for the first time at the December 2017 WTO ministerial in Buenos Aires. Principally focused on trade-related issues, from subsidies to intellectual-property theft, it has also provided a venue for floating other areas of potential cooperation, such as data flows. A U.S. interagency delegation visit to Brussels and Paris in January 2018, led by the National Security Council’s senior director for Asian affairs, Matthew Pottinger, helped to tee up expanded cooperation efforts on the Indo-Pacific in both its security and economic dimensions, with considerable emphasis placed on connectivity, given the crossover between the two sides’ approaches in this area.

More contentiously, this year has seen a major U.S. push to persuade European states to exclude Huawei

from their 5G infrastructure, which drew an array of officials to Europe from different parts of the administration. This has largely been an issue-specific drive rather than being embedded in any wider attempt to forge consensus on technology or infrastructure-related questions. Nonetheless, digital and physical infrastructure are among the themes under consideration in NATO’s China review—which was initiated by the United States earlier this year—while issues around investment screening and export controls have been addressed in other formats with a transatlantic core, such as a Five-Eyes/G7-plus grouping. U.S. cabinet members, including Secretary of State Mike Pompeo and National Security Advisor John Bolton, have also raised the China issue with their European counterparts more consistently than ever before. Importantly, this effort has gone beyond the “usual suspects” in Western Europe to include countries that had not previously had a substantive dialogue on China with senior U.S. officials. Many countries in Central and Eastern Europe, for instance, now understand that their dealings with Beijing will have implications for their relationship with Washington. Many of these exchanges have addressed specific concerns about China’s strategic investments in Europe. Where once Chinese activities in Europe beyond outright dual-use technology cases attracted little attention from the United States, now even civilian infrastructure projects are coming under considerable scrutiny.

The Emerging Transatlantic Agenda

The progress made in transatlantic cooperation on Asia has varied considerably. In some areas, while broader differences have had an inhibiting effect, it has still been possible to move elements of a joint platform forward even where political divergences have been acute.

The four areas looked at below have become focal points for the United States and the EU in the last year. It is far from an exhaustive list. For instance, critical questions around human rights

and democracy in Asia—from Hong Kong to the treatment of Uighurs in Xinjiang—have also been the subject of considerable transatlantic exchange. However, the examples here are representative of the issues that now command political attention from the United States and the EU, and each one is likely to continue to be important to the transatlantic agenda in the years to come.

Trade

In principle, trade should be one of the areas with the greatest scope for EU-U.S. cooperation on Asia. The two sides have highly similar concerns and negotiating goals with China. There has also been considerable crossover in their interests in bilateral or plurilateral deals with other partners, which have often worked in a complementary fashion. From Japan to Vietnam, Asian countries have seen the potential benefits of gaining expanded access to the world's two largest markets if they are willing to further open their own. For instance, EU officials claim that the negotiation of the trade agreement between the United States and South Korea knocked years off their own negotiations with Seoul given the similarity of the concessions required. Moreover, any thinking about the construction of a new plurilateral trade architecture—all the more important given the pressures on the WTO—necessarily starts with a transpacific agreement, a transatlantic agreement, and the EU's deals in Asia.

In some areas, there have been steps forward in cooperation under the Trump administration. The trilateral process with the EU and Japan has been a helpful, higher-level addition to efforts at coordination on China, even if its concrete outcomes have been limited to date. There has also been close transatlantic cooperation in specific matters, including the market-economy case at the WTO and the EU's WTO case of June 2018 directed at Chinese forced technology transfers, which is a complement to the United States' Section 301 actions against China. EU officials also credit the expansive work of USTR to assemble evidence of problematic Chinese practices, all of which strengthen their own capacity

to mount cases. Both sides have been pushing China on an extremely similar set of issues, and they have maintained their focus on structural economic reform in China rather than succumbing to its offers of more limited bilateral deals. EU officials are aware that much of the progress they have made in their negotiations with China on areas such as industrial subsidies is a function of its response to U.S. pressure rather than a toughened European stance alone. They have also treated China's attempt to portray itself as a model of multilateral virtue in the trade realm, without any tangible changes in its practices, with wearied disdain.

Yet there have also been several major obstacles to transatlantic cooperation. The imposition by the United States of Section 232 tariffs on steel and aluminum, alongside the threat of further measures on automobiles, has been the single biggest factor leading to the EU hedging in elements of its economic relationship with China, given the sheer scale of the damage that automobile tariffs would cause to European economies. It has also

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resulted in the transatlantic exchanges on trade, which both sides had initially expected would be more China-focused, instead being absorbed with dealing with their bilateral disputes. The absence of U.S. plurilateral efforts in the trade realm has also limited the scope for putting pressure on China through the establishment of high-standard alternatives to the WTO. The EU has pushed ahead with major new deals of its own, including with

Japan, Canada, and Mercosur, but the United States' withdrawal from the TPP and its tariffs on partners and allies have complicated the already difficult task of building a broader common front. The TPP alone was never going to bring about a significant change in China's behavior but the most ambitious plans, which ultimately saw a stitching together of TPP, the Transatlantic Trade and Investment Partnership (TTIP), and the EU's Asian free-trade agreements, would have represented a challenge of a different order for China—the prospect of a highly integrated trade club outside the WTO from which it was excluded.

There are also differences on trade that transcend the specificities of the Trump administration. U.S. complaints about the WTO's Appellate Body are longstanding, and were an area of fierce contention during President Barack Obama's presidency, though the Trump administration's blocking of judicial appointments to it clearly represents an escalation. U.S. skepticism about the level of the EU's focus on the WTO as an instrument to deal with China is also deeply rooted. At the same time, there is serious EU concern about the Trump administration's willingness to endanger the multilateral trade order—particularly now that the entire WTO dispute-settlement mechanism is in danger of seizing up—even if there is also recognition that the current system is no longer able to cope with China adequately. The EU's willingness to step up its bilateral trade-enforcement measures are likely to be greater if the WTO route with China has been genuinely exhausted rather than preemptively abandoned. Transatlantic cooperation on negotiating strategies and sharing of texts has also been very limited. EU officials typically found out more about TPP texts from Asian partners than they did from the United States, and they now at times glean more from Chinese counterparts about the details of Sino-U.S. negotiations than they do from Washington. Some of this is understandable: there are competing commercial interests and areas—such as the EU's perennial focus on protecting “geographical indicators” such as Parma ham or feta cheese — where U.S. and European objectives clash directly. But each of these cases illustrates the fact that, even if the current U.S. tariffs and threats of tariffs on the

EU were withdrawn, any attempt to forge genuinely common cause on China and on wider trade strategy would require a greater transatlantic shift in approaches and habits.

Connectivity

The complementary nature of the EU's Strategy on Connecting Europe and Asia and the economic strand of the United States' Free and Open Indo-Pacific strategy has provided perhaps the clearest new opening for expanding transatlantic cooperation on Asia-related issues during the Trump administration. While China's BRI inevitably

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provides the backdrop, one of the chief virtues of this effort is that it is positive-sum—mobilizing more resources, more quickly to provide high-standard alternative options to the BRI—rather than purely defensive or defined by counteracting Chinese activities.

In many regions that will be central to its connectivity strategy, from the Western Balkans to South Asia, the EU remains a substantially larger investor than China, often dwarfing the resources that Beijing has deployed to date. Yet there have been growing

European concerns over issues that range from corruption to the extension of Chinese domestic practices on state financing and procurement into third markets. One recent internal EU report argues that the BRI “runs counter to the EU agenda for liberalizing trade and pushes the balance of power in favor of subsidized Chinese companies.”⁷ While the application of single-market rules has precluded many of these problems within the EU, even EU accession candidates such as Montenegro have been burdened with high levels of Chinese debt as the result of projects of dubious economic value.

If the BRI is partly an externalization of the domestic Chinese approach to building hard infrastructure, the connectivity strategy is also a self-conscious extension of the EU’s internal approach, from the Trans-European Network for Transport to the integration of EU energy markets. But the most obvious recent reference point is the “Juncker plan,” the EU’s infrastructure investment program that was launched in 2015, which has already mobilized €410 billion (\$455 billion) in new intra-European investments through a mix of grants, guarantees, and innovative financing mechanisms, substantially exceeding its initial target.⁸

The publication of the connectivity strategy avoided attention-grabbing headline numbers, largely because the final figures still need to be agreed for the next EU budget cycle (2021–2027), with more limited development funds available in the interim. The proposal is for €60 billion to be allocated to an “investment framework for external action”, which would form part of a financing platform alongside the European Investment Bank, the European Bank for Reconstruction and Development, and other streams. But in private, EU officials are bullish about the total volume of resources that can be mobilized. The Juncker plan was a major demonstration of the EU’s capacity to catalyze substantial private infrastructure investments with only a modest outlay of public

7 Dana Heide, Till Hoppe, Stephan Scheuer, and Klaus Stratmann, “EU ambassadors band together against Silk Road,” *Handelsblatt*, April 17, 2018

8 European Commission, “Juncker Plan reaches almost €410 billion in triggered investment across the EU,” June 19, 2019

funds, and the intention is to replicate that example, in structure and in scale, which could ultimately see an EU connectivity initiative worth several hundred billion euros. The EU’s External Investment Plan—a more modest effort targeting the union’s immediate neighborhood—has already showed the viability of using the Juncker plan’s guarantee-based model outside the EU’s borders. While much of the

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emphasis of the connectivity strategy looks beyond the raw figures to rules, standards, institutions, and “behind the border” issues that obstruct commercial relations, the overall approach is not premised on the view that the EU “cannot compete” with China on the hard infrastructure and financing side. The EU’s initiative had a major public outing at the Europa Connectivity Forum in September 2019, which featured Prime Minister Shinzo Abe of Japan and the heads of multilateral development banks. Internal debates are underway about how to strengthen the new European Commission’s capacity to give a major push to these efforts particularly before the full EU budget is in place.

The considerable crossover between the EU and U.S. approaches on connectivity, including the focus on mobilizing private-sector finance, and the relatively latent state of their respective efforts, has made this a rare area where the two sides can collaborate closely at the inception of their planning. Coordination has so far taken a quiet, practical form, with regularized exchanges among officials,

including the EU's newly appointed connectivity ambassador. Washington and Brussels are still in the process of aligning their bureaucracies, mobilizing resources, and matching thematic priorities—such as digital infrastructure and energy—with geographic focus. Both lag behind Japan's gold-standard Quality Infrastructure Initiative, and Tokyo will remain the other major counterpart for the EU and the United States in this effort. Devising an appropriate division of labor between Europe, the United States, Japan, and other important actors in this space—such as India and Australia—will also be crucial. But there are still limitations on the capacity for central strategic direction: decisions in many critical areas will be taken in-country, and by investors themselves.

Nonetheless, the overall areas of commonality for all parties are clear. Shared principles and goals include ensuring a level playing field for the private sector; ensuring that investments are transparent, sustainable, and clean; mitigating the risks of economic coercion, loss of sovereignty, or detrimental impacts on political processes; and embedding open, democratic, and market-based norms in the rules and standards that will guide the emerging physical and digital infrastructure.

Connectivity is one of the few instances of a new area where transatlantic cooperation is proceeding with very little controversy, in a hands-on fashion, with the debates focused on effective implementation rather than first principles. As such, it is likely to remain one of the most promising fields of cooperation for the United States and the EU to take forward.

Investment, Export Controls, and Technology

China has driven a series of major shifts in the U.S. and EU approaches to investment screening and export controls, as both sides grow more aware of the risks of openness to China's subsidized acquisitions, presence in strategic infrastructure, and targeting of key technologies. Mirroring the impetus behind FIRRMA and ECRA in the United States, the European side has seen the introduction of the new EU-wide investment screening framework, the tightening or

establishment of national-level review processes, and a review of the EU's export-control guidelines. On issues ranging from adjustments to the scale of ownership stakes in firms by overseas investors that require regulatory scrutiny to an expansion in the definition of dual-use technologies, the policy shifts underway are a direct response to Chinese practices.

The United States and the EU appear to be pulling in the same direction, yet the gaps between them matter. As far back as the Cold War days of the Coordinating Committee for Multilateral Export Controls among Western allies, it has been clear that major policy initiatives in these areas have to be undertaken in coordination with partners if they are to be effective. Not only is there the risk of leakage of technologies, information, and components if the United States imposes more

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stringent restrictions on China than its European counterparts do, there is also the potential for harm to the transatlantic economic relationship if the United States then seeks to remedy this by restricting technology and economic partnerships with them as a result. With several FIRRMA and ECRA processes heading toward a conclusion—such as the

review of “emerging technologies”, and the FIRRMA implementing regulations—the concern among some European officials is that there will then be a push by the United States to ensure that its partners adopt the same standards or face economic repercussions if they do not. Even in the absence of government action, European firms in certain sectors that operate between the Chinese, U.S., and European markets for supply chains, research facilities, financing, and sales are already facing difficult choices and adapting their risk assessments and internal structures to the new conditions. As a result, some analysts are already warning of the potential for a partial transatlantic decoupling—in investment, technology cooperation, and other areas—as a byproduct of the U.S.-Chinese decoupling process.

There have been considerable transatlantic conversations on these issues at the official and expert levels, in new and pre-existing formats. These have brought about greater convergence in important areas: definitions of strategic infrastructure, dealing with shifting Chinese approaches to ownership stakes, and better common analysis of several technology sectors. Many critical U.S. efforts have also been directed at countries with technologies that China is keenest to acquire, whether through investments, exports, or firm-level and educational partnerships. But there have been no sustained senior-level exchanges over the right balance to strike in the respective openness of economic, technological, and scientific dealings with China. As the Huawei case has illustrated, the decisions on these questions involve high economic stakes and ultimately need to be resolved at the political rather than the technical levels.

Transatlantic exchanges over 5G have been perhaps the most important (and problematic) case in the last two years—a nexus of technology, security, values, and economic issues that is likely to recur in various forms. On the U.S. side, there has been deep frustration and concern about the willingness of close European allies to take the risks with their security that Huawei’s presence in their networks implies. This has also put the U.S. government in the peculiar position of being a bigger advocate for

two major European firms—Nokia and Ericsson, which are, aside from smaller players, the only capable non-Chinese 5G infrastructure providers at present—than many European governments are. While the administration’s messaging on the issue was initially ineffective, a reflection of the fact that the U.S. government had not had to run a quasi-campaign about China in Europe of this sort before, it was soon tightened up. Having been pushing, in the first instance, for outright bans on the company, the United States instead moved toward

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encouraging governments to set clear security parameters for their 5G networks, which would (it was hoped) exclude Huawei anyway. The 5G Security Conference in Prague last May, where 32 governments were represented, embraced precisely this goal.⁹ While the critical decisions will be taken at a national level, an EU-level review process that is due to conclude at the end of the year is intended to provide a framework and set of guiding principles, and issued what was seen by US officials as a strong coordinated risk assessment on 5G in October 2019. This provides the basis for a “toolbox” of measures to address these risks that will be released in December.

No final decisions have been taken on the future presence of Huawei in Europe’s telecommunications

⁹ Government of the Czech Republic, “Prague 5G Security Conference announced series of recommendations: The Prague Proposals,” May 3, 2019

networks, though some governments have already given strong indications about their choices. But, regardless of the outcome, which remains in doubt even among the closest U.S. allies, the process over the last year has demonstrated several problems. U.S. lobbying efforts and serious European attention came far too late in the day, making it virtually impossible to deal with the issue discreetly and in a non-politicized manner. It meant that the debate was framed as a “U.S. vs. China” battle, rather than a question of European

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security, economic strategy, and technological autonomy. This resulted in China turning the issue into a litmus test for European countries, with implicit (and sometimes explicit) threats of retaliation if they made the “wrong” choice. The U.S. position in turn was held hostage by the continued ambiguity at the top levels of the Trump administration regarding the place of Huawei in the trade negotiations with China. Even after Huawei and its affiliates’ inclusion on the U.S. Commerce Department’s entity list, which imposed licensing requirements on U.S. firms in selling software and components to Huawei on which the company depended, European countries did not trust that the United States would not alter its position after another Trump-Xi meeting, having seen the ZTE story play out where measures that would virtually have destroyed the company were reversed under Chinese pressure.

It has been clear for years that U.S. telecoms companies would refrain from buying from Huawei, not least given the likelihood of security regulation. As a result, Huawei never gained a significant foothold in

the U.S. telecommunications infrastructure beyond the small rural carriers. U.S. companies, however, have actively engaged in providing components and software for Huawei products, which the entity-list decision appeared to restrict. Yet given President Trump’s continued indications that this move could end up as another bargaining chip in the trade talks with China, rather than a national-security decision, some European countries have envisaged a scenario that sees them taking a blow from each side. First, a decision to exclude Huawei, under U.S. pressure, would leave European companies facing repercussions in China. Then, following the conclusion of a U.S.-Chinese agreement, in which Washington relaxed its stance on sales of U.S. companies to Huawei, an emboldened President Trump would hit the EU with automobile tariffs. Meanwhile, many Europeans have set the U.S. warnings that intelligence-sharing might be placed at risk, as well as the implications for the United States’ forward deployments and military mobilization during crises, alongside a long list of other threats from the Trump administration. While a cohort of European countries have already taken decisions over Huawei that reflect either their own security and economic concerns or the need to take the U.S. position into account, others remain ambivalent. A more conciliatory U.S. administration that was politically easier for allies to side with might already have secured a more decisive result in Europe on this issue; but so might one that was more careful about blurring the line between trade and security matters, and was more credible and selective with its warnings to allies.

The 5G case should act as a cautionary example for the United States and the EU, as the arms embargo clash did in the mid-2000s and, to a certain extent, the AIIB dispute did in 2015. Where once it was possible to pre-empt most problems through consultations among diplomats and political and security experts, China-related transatlantic disputes are increasingly likely to emanate from developments that cut across questions over emerging technologies, industrial policy, and the behavior of the Chinese party-state. Heading off cases of this nature before they blow up

requires a very differently constituted group of U.S. and European officials and experts to be meeting on a regular basis. They will also need to do so within parameters that are set at the highest political levels rather than treating these as ‘technical’ deliberations. Yet at present, on neither side is the overall balance of judgments clear regarding what level of openness to China makes economic and security sense, let alone in a transatlantic context.

Indo-Pacific Security

The EU has made progress with developing its strategic outlook on Asia, including its East Asian security guidelines, its 2018 plans for enhanced security cooperation in the region, and its contributions in areas ranging from peace processes to cyber-security.¹⁰ But much of the drive has come from a small number of member states. France has been the primary mover—not only in terms of the regularity and scale of its activities and its standing military presence in New Caledonia, French Polynesia, Réunion, and Mayotte, but also of its efforts to “Europeanize” French naval operations by drawing in other European countries (and EU officials) and of its broader contributions to strategic thinking on the Indo-Pacific, including with its defense policy paper published last May¹¹. The United Kingdom has been the other principal European force in Asia. The United Kingdom and France mirror each other’s efforts in several areas, from the two-plus-two meetings with Japan to their operations in the South China Sea (which take the form of presence operations rather than outright freedom-of-navigation operations). But when it comes to capacity, the number of presence operations, the likely sustainability of activities, and its status as an EU member, France has been in the lead, and as such it has become the primary docking point for U.S. efforts to deepen hard security cooperation with Europe in Asia.

10 Council of the European Union, *Guidelines on the EU’s Foreign and Security Policy in East Asia*, June 15, 2012; Council of the European Union, *Deepening EU security cooperation with Asian partners: Council adopts conclusions*, May 28, 2018

11 Ministry of the Armies, Government of France, *France and Security in the Indo-Pacific*, 2018 edition, updated May 2019

While there have been significant elements of continuity with previous administrations, the last two years have seen a stepping up of exchanges and practical cooperation by the United States with its European allies, from enforcing sanctions on North Korea, which has direct military implications when it comes to ship-to-ship transfer, to joint naval exercises, such as the drills by the United States, the United Kingdom, France, and Japan off Guam. This is partly a function of the shifts to broader U.S. strategy. The expansion of focus to the Indo-Pacific—all the more so once its scope was clarified as encompassing the entirety of the Indian Ocean rather than the Indo-Pacific Command’s area of

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responsibility, which stretches to India’s western border—provides a dauntingly vast geography in which to maintain presence, and tends to reinforce the need for a division of labor. Given China’s propensity for taking advantage of blind spots, the ability of the likes of France to navigate parts of the western Indian Ocean, for instance, is especially important for Washington.

The last few years have also seen a considerable expansion in exchanges and agreements between U.S. friends and allies from Europe and the Indo-Pacific—the United Kingdom, France, India, Japan and Australia most notably—making it easier for

U.S.-Asian and U.S.-European activities to be woven together. Moreover, many of the needs across the region, from partner capacity building in areas such as maritime domain awareness and coast guard functions to targeted arms sales, are not contingent on a large U.S. military presence. Some of these needs —such as legal support for states embroiled in territorial disputes—can be handled by the EU itself. This is also a sphere in which there is growing U.S. awareness that the economic and hard security spheres are intertwined, from the dual-use potential of commercial ports to the exploitation of countries in weak financial positions. As a result, Indo-Pacific security cooperation and the connectivity agenda are increasingly closely related, and the crossover of the key countries and actors in both these areas—Europe and the “Quad” of Australia, India, Japan, and the United States—is likely to persist. Even in the trade sphere, the decisions of countries such as Vietnam to sign free-trade agreements with the EU (and to join TPP) are inextricably bound up in their desire to avoid Chinese economic coercion. In a similar vein, several potential contingencies in the region would involve Europe in a critical role when it comes to decisions over sanctions. In scenarios short of full-scale war in Asia, the EU’s position on targeted or broad-based sanctions will, as in almost every other case, be the most important next to that of the United States. In the aftermath of the annexation of Crimea in 2014, for instance, China was warned by a senior

“ *There are inherent limitations to the EU’s hard-security role in Asia, especially in terms of the capacities that can be deployed.* ”

European official that similar actions in Asia would elicit sanctions of the same magnitude that Russia faced.

There are inherent limitations to the EU’s hard-security role in Asia, especially in terms of the capacities that

can be deployed. The European naval presence in the South China Sea will continue to be valued by the United States more for its symbolism than any potential role in regional conflict scenarios. U.S. frustrations over mealy-mouthed EU statements in this field will also persist unless moves afoot to make EU common foreign and security policy decisions on a qualified-majority basis are successful. But European countries—particularly France and the United Kingdom—remain among the most capable military powers and sources of defense equipment in the world, and the weight of the EU’s strategic economic role is also clear. With appropriately bounded expectations, security is an area in which transatlantic cooperation has been deepening and is set to continue doing so.

Conclusion

As the examples above show, the transatlantic agenda on Asia and China is now vastly wider than it was when consultations between the United States and the EU were first put in place. Issues that would once have been seen as “niche” or “specialist” have moved to the core of their political, economic and security agendas. While elements of the more traditional cooperation checklist—getting a joint statement on Chinese militarization of the South China Sea, for instance—still have value, the emerging agenda is one where consequential and practical progress is more readily possible.

In the years ahead, that agenda is likely to widen further, and much of this will be driven by China. While cooperation in the broader Indo-Pacific will be a major geographic focus, adjustments around China’s rise touch on an even more expansive array of domestic policies too. There are, for instance, parallel debates in Europe and the United States over how the array of challenges that China poses should recondition their broader economic strategy, and the capacity of the major democracies to continue to set global rules and standards. Despite the deeply interconnected nature of the transatlantic economy and security alliance, most of the debates about

industrial policy, supply-chain security, the defense industrial base, and other related areas are conducted on separate tracks, and transatlantic exchanges in these areas have in some aspects even regressed. The negotiations on TTIP, for instance, which were largely concerned with regulatory alignment rather than tariff liberalization, have given way to a far narrower set of talks on trade. Although the EU-U.S. Privacy Shield remains in place, when it comes to data flows—which many analysts see as an important way of mitigating China’s advantages in access to large, pooled datasets for artificial-intelligence purposes—differences over privacy mean that divergences between the United States and the EU are greater than those among other developed democracies such as Japan. Moreover, given the impact of U.S. economic pressure on fronts ranging from Iran-related secondary sanctions to national-security-based tariffs on steel, the impetus in the EU is understandably directed more toward building “strategic autonomy” than on seeking transatlantic convergence.

Yet the scale of the differences between the essential elements of the liberal-democratic model and the authoritarian one that the Chinese government is increasingly promoting, from surveillance to the role of the party-state in the economy, is clear. And consequently, the question of whether combined transatlantic efforts will be required to sustain each others’ political values, economic interests, technological edge, and security needs is going to come up in an ever-greater number of areas. The EU has a strong interest in defining these shared objectives beyond reference to China. From the Arctic to Africa, from connectivity in the Balkans to the Indo-Pacific, China’s rise has substantially reconditioned the choices at stake. However, there is considerable caution in the EU about framing a common strategy around a defensive response to China’s behavior rather than around the values, the goals, and the structures that the EU wants to promote and support. It is no accident that the most successful areas of transatlantic cooperation in the last two years have been around the economic and security dimensions of the Trump administration’s Free and Open Indo-Pacific strategy—whether or not the EU adopts the

terminology—that takes precisely this positive-sum form. The transatlantic agenda in the coming years is going to be shaped by China to a greater extent than it ever has before, and there is significant scope for the United States to include the EU in its

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approach to various China-related challenges. But this is only likely to be effective if it forms part of a clear reassertion of the two sides’ values and a broader revisiting of the transatlantic relationship and its objectives, rather than a “counter-China” strategy alone.

Yet Europe too will need deeper reflection on what its own changing analysis of China really implies. Despite the language around “systemic” competition and rivalry, and a demonstrably tougher approach to recent negotiations, the instinct among many European actors is still to default to a path of least resistance in their China policies. With the global economic picture looking more fragile, this is becoming an even greater risk. In the coming years, if the United States really wants to make competition with China a central element of its strategy, that will certainly require a far more serious effort to get partners and allies on board. But European countries will also have to undertake a more serious reckoning on what short-term costs they are willing to bear if they want their values and interests to prevail. Competition with China is not going to be pain-free.

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