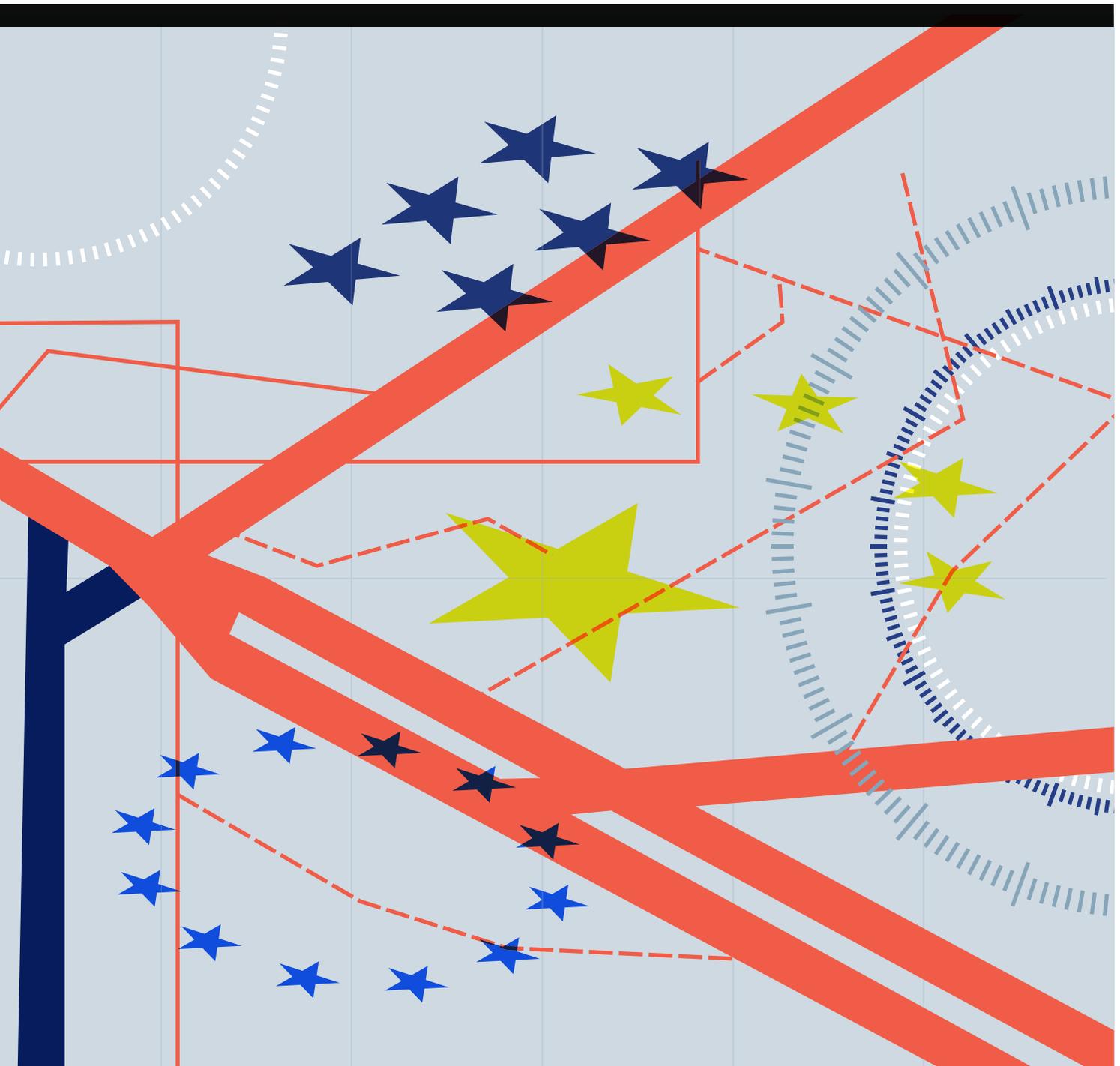


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Charting a Transatlantic Course to Address China

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COVER ART

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Executive Summary

Mounting competition between China and liberal democracies will shape the course of the 21st century. The gravity and scope of the challenges that China poses have permeated the transatlantic policy agenda and become a focal point in U.S.-Europe relations. Whereas China has long been a source of disagreement and even tension between the transatlantic partners, in the past two years views have converged. The Chinese Communist Party's (CCP) assertive actions—its “Wolf Warrior” diplomacy, aggressive influence operations, human rights violations at home, and elimination of fundamental freedoms in Hong Kong—have increased concerns in both the United States and Europe. There is now fertile ground for transatlantic cooperation on everything from reducing dependency on Chinese trade and investment to setting global norms and standards for the future. Yet, despite this convergence of views and interests, there is still no roadmap for how such cooperation should progress.

This report outlines such an approach. It is based on the premise that the time is ripe for greater transatlantic cooperation on China. It also recognizes the comprehensive nature of the task at hand. Today's controversies with China over trade, investment, technology, and global governance are all part of a larger competition between political systems and worldviews. The breadth of the challenge means that the United States and Europe must compete with China across multiple domains. This report lays out a roadmap for doing so, outlining concrete recommendations across the four sectors of technology, investment, trade, and global governance. By working together, the United States and Europe can pool the resources and leverage needed to push back against the CCP in these areas and develop preferred alternatives that advance strategic priorities for both sides of the Atlantic. Moreover, the strategies outlined in this report will also serve a second purpose: re-energizing the ailing relationship between Europe and the United States.

In crafting a transatlantic approach to China, policymakers should consider the following six principles:

1. ACT WITH URGENCY.

The United States and Europe have no time to waste in coordinating their approach to China. Already, China has pulled ahead in areas such as artificial intelligence (AI) and fifth-generation wireless technology (5G), and the CCP has set its sights on dominating additional sectors, such as quantum computing and genomics. More broadly, the CCP senses opportunity. The Trump administration's abdication of U.S. leadership and the perceived weakness of U.S. alliances, especially in Europe, have emboldened the CCP to more aggressively seek to undermine liberal democracy to advance its own authoritarian vision.

2. AIM FOR COORDINATED, IF NOT COMMON, POLICIES.

Given tensions in the transatlantic relationship and European concerns about mounting U.S.-China tensions, there is a strong push among many European officials for Europe to stake out its own China policy. But it is critical that these efforts be made in close coordination with the United States. Likewise, a go-it-alone approach in Washington will fail to produce results. The international community will be effective in shaping CCP policies and actions only if it builds a large and cohesive coalition of forces. Transatlantic cohesion and unity, in other words, will be critical to success.

3. STRENGTHEN U.S. AND EUROPEAN COMPETITIVENESS.

The United States' and Europe's own competitiveness will be the primary determinants of success in the contest with China. The United States and Europe must ensure that they maintain advantages in key areas such as technology, clean energy, and AI, while at the same time ensuring that their underlying values of freedom and democracy are protected. Increasing transatlantic coordination is a key part of the equation, providing the United States and Europe with a critical advantage over Beijing.

4. ENGAGE EUROPE AT ALL LEVELS.

Building an effective transatlantic coalition to address China will require the United States to engage Europe at all levels—the European Union (EU), individual member states, and NATO. The EU will be the critical interlocutor, but U.S. policymakers must recognize that Brussels will not be a one-stop shop. Because EU member states are responsible for implementation of guidance from the EU, U.S. government officials must also engage with

European capitals to improve what has so far been uneven implementation. The United States should also continue to push NATO to address the China challenge, including through greater coordination with the EU.

5. EXPAND BEYOND THE TRANSATLANTIC PLAYERS.

U.S. officials should look to broaden some discussions on China to include other like-minded democracies, such as Taiwan, Japan, Australia, India, and Canada—countries with considerable experience managing the CCP and countering its tactics. By widening the circle of countries at the table, the United States could help overcome some European concerns that the United States is attempting to protect U.S. interests in its competition with China. Broadening the conversation will also facilitate the sharing of best practices and risk assessments among liberal democracies.

6. REMAIN OPEN TO ENGAGEMENT WITH CHINA.

Pursuing a transatlantic approach to China does not mean that Europe or the United States should forfeit all engagement with China. It is critical that the United States and Europe continue to engage China on shared challenges, including climate change, counter-piracy, arms control, the Democratic People's Republic of Korea, and peacekeeping operations. But as they do so, the transatlantic partners need to move China in directions that are important to the United States and Europe and to ensure engagement is consistent with existing norms and standards.

A Transatlantic Roadmap to Manage China's Rise

Effectively addressing China will require the United States and its transatlantic partners to compete across several critical domains. This report lays out recommendations for cooperation on technology, investment, trade, and governance issues.

Technology as a Transatlantic Project

PROTECT U.S. AND EUROPEAN TECHNOLOGY ADVANTAGES

- Work with like-minded allies including Japan, South Korea, and Taiwan to share best practices and establish multilateral export controls.
- Increase commercial intelligence sharing between the United States and Europe.

ENHANCE WESTERN-LED INNOVATION

- Develop industrial strategies and capabilities in concert.
- Jointly develop technologies, align regulations, and promote democratic norms.
- Open innovation ecosystems and pool research and development (R&D) funding.
- Build the transatlantic workforce to lead innovation in technology.
- Work through NATO to promote and coordinate defense innovation to secure NATO's military edge.

COMPETE WITH CHINA'S DIGITAL INFRASTRUCTURE

- Create a multilateral coalition between the United States and like-minded allies to develop fifth-generation wireless technology (5G) risk assessments.
- Encourage joint R&D and the deployment of open radio access network solutions for 5G.
- Give European allies incentives to procure secure 5G technologies.
- Create alternatives to China's digital infrastructure projects in Europe and across the globe.

SET NORMS AND STANDARDS

- Increase alignment on data privacy to counter China's noncompliance with data privacy.
- Align U.S. and European technology norms and standards.

COMBAT CHINA'S DIGITAL AUTHORITARIANISM

- Prevent U.S. and European entities from enabling China's human rights abuses.

- Raise the cost on China for technology-fueled human rights abuses and the proliferation of illiberal technology.

Investment as a Transatlantic Project

COUNTER CHINA'S BELT AND ROAD

- Provide joint consultations to countries considering Chinese investment.
- Develop a U.S.-EU investment fund and engage regional partners.
- Build a transatlantic public diplomacy campaign to more accurately depict China's Belt and Road practices.

STRENGTHEN INVESTMENT SCREENING MECHANISMS

- Use Foreign Investment Risk Review Modernization Act regulations to push Europe toward more effective national screening mechanisms.
- Use the Financial Action Task Force to push the United States toward greater transparency.
- Use antitrust policies to address unfair and distortionary practices of Chinese firms.

BROADEN INVESTMENT SCREENING DIALOGUES AND TRANSATLANTIC COORDINATION

- Create regular executive agency dialogues to coordinate on investment screening decisions.
- Strengthen transatlantic information and intelligence sharing as Europe and China negotiate the Comprehensive Agreement on Investment.
- Broaden the dialogue on investment screening beyond the European Union and the United States.
- Expand the dialogue on Chinese investment to the private sector and academia.
- Strengthen NATO-EU cooperation on Chinese investment.
- Enhance intelligence sharing among EU member states and between the EU and the United States on foreign investment screening.
- Enhance dialogue between the U.S. Congress and European parliaments.

LOOK BEYOND CHINESE INVESTMENT

- Monitor R&D collaboration.

Trade as a Transatlantic Project

REPAIR THE U.S.-EU ECONOMIC RELATIONSHIP AND REBUILD TRUST

- Resume U.S.-EU trade negotiations.
- Rebuild trust in the transatlantic trade relationship.
- Revive the Transatlantic Economic Council.
- Diversify supply chains.

PROMOTE A FAIR TRADING SYSTEM

- Collaborate on World Trade Organization (WTO) modernization and reform.
- Coordinate with the EU and Group of 77 democracies on upcoming appointments in industrial standard-setting bodies, such as the International Telecommunication Union and International Organization for Standardization.
- Bring a comprehensive case against China in the WTO.
- Discipline China for its state-owned enterprises and state subsidies in the WTO.
- Invite China to join the export credit arrangement in the Organization for Economic Co-operation and Development.

SECURE U.S. AND EU TECHNOLOGICAL ADVANTAGES

- Join the EU case against China's intellectual property practices.
- Pool data on China's technology transfers.
- Avoid lifting any of the Section 301 tariffs on China until it demonstrates measurable change.
- Establish multilateral export controls on semiconductor manufacturing equipment.

Governance as a Transatlantic Project

RECOMMIT TO INTERNATIONAL INSTITUTIONS

- Show up.
- Start with the World Health Organization.
- Lift human rights and reform the U.N. Human Rights Council.
- Lead on technology norms and standard setting.
- Prioritize U.N. leadership elections.

INCREASE VISIBILITY ACROSS THE UNITED NATIONS SYSTEM

- Invest in the future.
- Develop personnel.

DEEPEN SHARED KNOWLEDGE

- Make Chinese Communist Party (CCP) influence a standing topic of discussion in regular bilateral dialogues.
- Expand whole-of-government efforts.
- Report annually on Beijing's tactics to advance its objectives across the U.N. and on counterstrategies.
- Develop and share expertise within institutions about CCP ideology and propaganda.
- Involve the legislatures.

REFRAME THE COMPETITION

- Make stark the contrast between democracies and autocracies.
- Engage in more proactive public diplomacy.
- Promote an alternative for the developing world and do more to engage it.

Introduction

Relations between the United States and Europe remain strained. Even if a new U.S. administration enters the White House in 2021, relations will not simply snap back to the pre-Trump era. Both the transatlantic relationship itself and the wider geopolitical landscape look different than they did four years ago. Whether it is the global pandemic or challenges that surfaced well before Donald Trump took office—such as a rising China—changes have played out on both sides of the Atlantic that have tested and eroded transatlantic unity and resolve. While the transatlantic partnership remains anchored by its shared values and the two partners’ long history of working together to address common challenges, the partners need a revised approach. Policymakers in the United States and Europe are looking for opportunities to mend this historically critical relationship and to find common ground that would allow them to refocus and redefine its relevance.

Working together to collectively strengthen the United States’ and Europe’s ability to compete with China provides an opportunity for a reinvigorated partnership. Successfully addressing the challenges that stem from the Chinese Communist Party’s (CCP’s) growing influence will require the United States and Europe to work in concert, reinforcing as well as creating new opportunities for transatlantic cooperation and shared leadership. In the United States, the issue of strategic competition with China is a top national security and foreign policy priority that enjoys broad bipartisan consensus. There is also recognition among wide swaths of foreign policy thinkers that if Washington wants to retain its competitive edge over Beijing, it must embrace and strengthen its greatest asset: its vast network of alliances and partners, especially in Europe.

There is an equally strong incentive for Europe to pursue deeper cooperation with the United States on China. Mounting competition between China and liberal democracies will shape the course of the 21st century. The nature of this competition will largely determine whether the international order that underpins peace, prosperity, and freedom will endure, or whether Beijing’s emerging vision—a world defined by great-power spheres of influence, rigged economic interactions, and ascendant authoritarianism—will become the global reality.¹ In short, the CCP’s growing influence poses a direct threat to the shared values and way of life enjoyed on both sides of the Atlantic.

Effectively pushing back against these challenges requires a cohesive approach. Only if the United States and Europe combine their collective heft will they be able to counter China’s illegal and unfair trade and

investment practices and address Beijing’s dismal human rights record. The CCP, however, has long recognized the threat that transatlantic unity poses to it and has invested considerable energy and resources to prevent Europe from siding with the United States over China. Beijing has used a variety of divisive tactics—especially its economic leverage—to prevent Europe from speaking with one voice and to disrupt or halt Europe’s alignment with Washington.

Despite those efforts, national governments and the European Union are more attuned to and concerned about the challenges stemming from China’s growing influence. Although views on issues like Chinese investment, trade, technology, and governance vary across the European continent, there is greater recognition that the “balance of challenges and opportunities” presented by China has shifted. The COVID-19 pandemic has heightened concerns in some European capitals as Beijing’s actions have laid bare its global ambitions and the lengths to which the CCP is willing to go to achieve them.

Simply put, European and U.S. interest in addressing the China challenge is growing, making the time ripe to build on those overlapping interests to reinvigorate transatlantic ties. The CCP’s assertive actions—its “Wolf Warrior” diplomacy, aggressive influence operations, human rights violations at home, and elimination of fundamental freedoms in Hong Kong—have increased concerns in the United States and Europe. There is now fertile ground for transatlantic cooperation on everything from reducing dependency on Chinese trade and investment to setting global norms and standards for the future. Yet despite this convergence of views and interests, there is still no roadmap for how such cooperation should progress.

This report outlines such an approach. Today’s controversies over trade, investment, technology, and global governance are all part of a much larger competition between political systems and worldviews. The comprehensive nature of the challenge means that the United States and Europe must compete with China across multiple domains. This report lays out a roadmap for doing so, making concrete recommendations across the four sectors of technology, investment, trade, and global governance. By working together, the United States and Europe can pool the resources and leverage needed to push back against the CCP in these areas and develop preferred alternatives that advance strategic priorities for both sides of the Atlantic. Moreover, the strategies outlined in this report will also serve a second purpose: re-energizing the ailing relationship between Europe and the United States.

Principles for Transatlantic Cooperation on China

As policymakers chart a transatlantic course for addressing China, they should consider the following six principles:

Act with urgency. The United States and Europe have no time to waste in coordinating their approach to China. Already, China has pulled ahead in AI and 5G, and the CCP has set its sights on dominating additional sectors such as quantum computing and genomics. There is particular urgency to compete in the technology sector, given that the CCP's dominance in this space gives Beijing advantages in a number of domains including defense, economics, and democracy and human rights. Beijing expects, for example, that its technology dominance will translate into an ability to set the norms and standards governing these spaces, undermining the interests and values of liberal democracies.

More broadly, the CCP senses opportunity. The Trump administration's abdication of U.S. leadership and the perceived weakness of U.S. alliances, especially in Europe, have emboldened the CCP to more aggressively seek to undermine liberal democracy to advance its own authoritarian vision. As COVID-19 spreads, the CCP has taken advantage of the moment and pursued an uncharacteristically assertive approach in multiple domains: tightening its grip over Hong Kong, ratcheting up tensions in the South China Sea, unleashing a diplomatic pressure campaign against Australia, and using fatal force in a border dispute with India. As Kurt M. Campbell and Mira Rapp-Hooper note, "The world may be getting a first sense of what a truly assertive Chinese foreign policy looks like."² If the United States and Europe are unable to mount a rapid response, it will be increasingly difficult to reverse the ramifications of China's actions, especially the negative effects China's influence will have on the quality of democracy worldwide.

Aim for coordinated and complementary, if not common, policies. Given tensions in the transatlantic relationship and European concerns about mounting U.S.-China tensions, there is strong resolve among many European officials for Europe to stake out its own China policy. In France, for example, COVID-19 has amplified calls for "strategic autonomy." The EU's foreign policy chief, High Representative Josep Borrell, put forward the idea of a "Sinatra Doctrine," encouraging Europe to find its own way.³ The fact that Brussels and European capitals are rethinking the extent of their reliance on China and taking concrete steps on things such as investment screening mechanisms is positive, but it is critical that these efforts be done in close coordination

with the United States. Likewise, a go-it-alone approach in Washington will fail to produce results. Even if the United States restricts the export of some technologies, for example, Beijing will seek to acquire them elsewhere. International actors can hope to compel the CCP to change only if they build a large and cohesive coalition of forces. Transatlantic cohesion and unity, in other words, will be critical to success.

Strengthen U.S. and European competitiveness. The United States' and Europe's own competitiveness will be the dominant determinant of success in the contest with China. The United States and Europe must ensure that they maintain advantages in key areas such as technology, clean energy, and artificial intelligence, while at the same time ensuring that their underlying principles of freedom and democracy are protected. Doing so will require effort, resources, and attention. Increasing transatlantic coordination is a key part of the equation, providing the allies with a critical advantage over Beijing. They must work, for example, to align investment in research and development (R&D) and other joint efforts to spur innovation. When working together, the United States and Europe are better positioned to out-innovate Beijing.

The United States' and Europe's own competitiveness will be the dominant determinant of success in the contest with China.

Competing more effectively with China is also about building resilience. The United States and Europe can become more effective at sharing risk assessments and intelligence, lessons learned, and best practices, and collectively build expertise on China. In some parts of Europe, a lack of China expertise has been a critical barrier to building resilience. Competing effectively also means getting critical issues right at home—for example, the appropriate use of surveillance technology—and working with each other to set a global standard that other countries will want to adopt. Unilateral solutions will not be effective. The United States and Europe will need to pool talent and ideas and coordinate resources so that both sides can compete from a position of greater strength.

Engage Europe at all levels. The United States must take a broad approach in its outreach to Europe on China

by engaging Europe at all levels—the EU, its member states, and NATO. Of course, the EU will be the critical interlocutor. The European Commission has already helped shift European views on China. Secretary of State Mike Pompeo’s agreement in June to a “distinct bilateral dialogue focusing on China” with the EU was a positive step.⁴ But U.S. policymakers must realize that the EU will not be a one-stop shop. EU powers on export controls, for example, are limited, and member states guard their prerogatives on national security issues. Because EU member states have the ability to decide whether to implement guidance from the EU, U.S. government officials must also engage with European capitals to improve what has been uneven implementation of EU guidance on investment screening and other issues.

The United States should also continue to push NATO to address China. While many of the threats China poses to NATO are best dealt with through measures such as investment screening and export controls, NATO has certain tools at its disposal. NATO can, for example, help build a shared perception of the threats that China poses in such areas as 5G and AI, which undergird current and future military applications. Furthermore, China’s investments in Europe’s critical infrastructure could hinder NATO mobility. NATO should work to increase coordination with the EU on these issues to ensure that member states take adequate measures to mitigate security risks to the alliance.

The transatlantic partners could learn from the experiences of countries that have long been the victims of China’s discriminatory policies and threats of economic retaliation.

Expand beyond the transatlantic players. U.S. officials should look to broaden some discussions on China to include other like-minded democracies that have considerable experience managing the CCP and countering its tactics, such as Taiwan, Japan, Australia, India, and Canada. By widening the circle of countries at the table, the United States could help overcome some European concerns that the United States is a protectionist, self-interested actor merely looking to strengthen its own position in its competition with China. Broadening the conversation would also facilitate the sharing of best practices and risk assessments among liberal

democracies. The transatlantic partners could learn from the experiences of countries that have long been the victims of China’s discriminatory policies and threats of economic retaliation. Finally, by widening the circle, the United States and Europe could more powerfully signal to Beijing the cohesion of liberal democracies and their resolve to push back against the CCP’s aggressive and undemocratic measures.

Remain open to engagement with China. Pursuing a transatlantic approach does not mean that Europe or the United States should forfeit all trade and economic relations with China. It is also critical that the partners continue to engage China on shared challenges, including climate change, counter-piracy, and peacekeeping operations. But in doing so, the United States and Europe also need to move China in directions that are important to both sides. The United States and Europe should pool their influence and engage like-minded partners beyond Europe to insist that such engagement is consistent with existing norms and standards.

Roadmap for Cooperation

This report argues that the time is ripe for greater transatlantic cooperation to address the China challenge. China's assertive actions in the wake of the pandemic have raised awareness of Beijing's aims and catalyzed action across Europe. From the United Kingdom to Estonia to Germany, governments are revising national policies to better account for the challenges and risks that stem from China's rising influence. The goal is to build on this momentum and better coordinate actions across the Atlantic. To that end, this section offers concrete recommendations across the four domains of technology, investment, trade, and global governance. By working together where interests align, the United States and Europe can collectively strengthen their ability to compete with China and re-galvanize the transatlantic relationship.

Technology

The United States has long held a competitive edge over China in the technology domain. America's technological dominance provided the United States—and by extension its allies—with military and economic advantages, and influence to shape international norms in this space. Under Xi Jinping, China is challenging America's technological edge. The CCP seeks to move China from a follower to a global leader in 5G, AI, quantum computing, and other digital and disruptive technologies. Beijing's goal is to reduce, if not eliminate, China's reliance on imported technology across a range of sectors. The CCP views such innovation as central to economic growth, effective governance and control over citizens, international influence, and military modernization.

To these ends, China has invested heavily in R&D. Over the past decade, it has tripled its R&D budget to \$462 billion a year in 2018—more than all of Europe's R&D budgets combined (yet not more than the United States' and Europe's together).⁵ China has also sought to accelerate innovation by acquiring overseas companies, technologies, and talent—especially from the United States and Europe—to upgrade its industrial capacity. China uses both legal and illegal tactics, including selective foreign investment, importing technology and talent through mergers and acquisitions, and joint ventures with Western firms. Industrial espionage and forced technology transfers are also tools in the Chinese innovation toolkit, both of which allow China to “leapfrog” by acquiring cutting-edge technology without having to innovate on its own. Additionally, in several cases, the Chinese government has leveraged

Chinese students or researchers in the United States to steal U.S. technology and replicate it in China, by means such as China's Thousand Talents Program—an initiative designed to identify and recruit leading experts around the globe to bring their knowledge back to China.

If left unchecked, China's tactics—and the influence it would gain as a technology leader through their use—would create the following risks and challenges for the transatlantic partners:

Degrading U.S. and European economic competitiveness. China's innovation offensive aims to affect the competitiveness of U.S. and European high-tech sectors. China is boosting its own innovation through market-distorting subsidies, protectionism, and the absorption of foreign technology through theft of intellectual property and forced technology transfers. These measures threaten the competitiveness of countries playing by market rules.⁶ Furthermore, Chinese domestic markets are largely closed to foreign digital services because of China's cloud computing restrictions, web blocking, data localization requirements, and investment restrictions. Such restrictions mean that Chinese firms maintain exclusive access to China's domestic market, which enhances the international competitiveness of Chinese relative to U.S. and European firms.

Shifting the military balance. Xi seeks to transform the People's Liberation Army (PLA) into a fully modernized force by 2035 and views emerging dual-use technology as key to advancing the army's capabilities. China's military-civil fusion policy—a CCP effort to create and leverage synergies between defense and commercial developments—plays an important role in Beijing's efforts to advance its military ambitions. It also raises the risk that U.S. and European civilian academic collaboration and business partnerships with China could aid China's military development.⁷ China continues to acquire technology, know-how, and talent in the United States and Europe, particularly in areas such as AI and quantum computing. Growing Chinese assertiveness and military strength, along with eroding U.S. deterrence, raises the risk of conflict between the United States and China.⁸ And although China does not pose a direct military threat to Europe, a change in the military balance would allow the CCP to more aggressively pursue its interests in the Indo-Pacific, eroding the foundations of the rules-based order that benefits Europe and the United States.

Threatening NATO and the interoperability of its forces. Allowing Chinese companies to provide telecommunications infrastructure in NATO member states would pose a risk to intelligence data transmitted through these 5G networks. Such risks include the potential for espionage and the loss or interruption of the availability, integrity, or confidentiality of these systems. China's deepening relationship with Russia brings the challenge to Europe's front door; Beijing could leverage its position in Europe's networks to provide intelligence to Moscow or disrupt service during a crisis. And China's technological rise poses an additional risk to the interoperability of NATO forces, potentially undermining the alliance's ability to work together coherently in the face of a crisis in Europe or in out-of-area operations. NATO interoperability requires member states to have secure and resilient telecommunications infrastructure, which Chinese systems put at risk. Moreover, if the allies diverged in their responses to the China challenge, the result could be the adoption of different standards, which would also undermine the interoperability of forces.

China's digital outreach is not solely driven by economic motives. It is also linked to a more fundamental competition between political systems.

Advancing China's digital dictatorship. China's digital outreach is not solely driven by economic motives. It is also linked to a more fundamental competition between political systems. China seeks to advance its vision of digital illiberalism, which it sees as critical to maintaining power at home and influence abroad. Its efforts to use technology to repress its Uighur population and create a surveillance state are well documented. But Beijing is also exporting these technologies beyond its borders. China's acquisition of key Western technology companies, know-how, and data allows the CCP to enhance its capacity for surveillance and positions Beijing to export its domestic tools widely. Leaders across the globe are embracing these technologies to upgrade longstanding authoritarian tactics, making autocracies a more formidable challenge for liberal democracies.

Threatening citizens and society. China's digital tools and tactics, like Russia's, blur the line between domestic policy and national security. Allowing Chinese companies to build Europe's 5G networks, for example, would position Beijing to access data it could use against

citizens inside liberal democracies. AI could be used to create digital "patterns-of-life," in which an individual's digital footprint is combined with other personal information, such as spending habits and job history, to create "comprehensive behavioral profiles of servicemembers, suspected intelligence officers, government officials, and private citizens."⁹ This information could be used, in turn, for targeted influence operations or blackmail. Likewise, China's increasingly assertive digital influence efforts are contaminating the information space, undermining a key pillar of well-functioning liberal democratic societies.

Technology as a Transatlantic Project

The United States and Europe have taken a number of positive steps to address the challenges that China's technological rise presents. In particular, there is a heightened awareness on both sides of the Atlantic of the CCP's tactics for accelerating innovation, including its economic espionage and acquisitions. Europe reached a critical turning point in 2017 when a Chinese firm acquired the German high-tech robotics manufacturer KUKA. Since then, the United States and Europe have changed their posture, increasing investment restrictions and export controls to restrict the flow of critical technologies to China.¹⁰

The task at hand is to build on this progress. The shared values and convergence of interests among transatlantic partners create fertile ground for such cooperation. The United States and Europe share an interest in protecting their technological advantages and remaining competitive in key technological sectors. They also seek to shape norms and standards around the appropriate use of technology. This process includes developing shared policies and norms to guide the use of emerging technologies and preventing Western technology from facilitating human rights abuses in Xinjiang and beyond.

The United States and Europe can be more effective in pushing back against Beijing when their influence is combined. In the technology realm, China often threatens economic retaliation when European countries reconsider implementing Chinese technologies. For example, when the German parliament discussed a bill imposing a ban on "untrustworthy" 5G vendors, China's ambassador to Germany threatened to retaliate by imposing tariffs on German car exports.¹¹ Improved transatlantic cohesion would render such tactics ineffective.

Building on their shared interests, however, requires overcoming barriers between the transatlantic partners.

These barriers include deep mistrust between the United States and Europe, Europe’s perception that the United States is a greater challenge than China in some areas, divergent views on data privacy, and different approaches to regulation and competition policy, each of which is discussed below.

The deep mistrust that permeates transatlantic relations threatens to stymie cooperation in the technology domain. Such mistrust has led some in Europe to pursue a “go-it-alone” approach, including calling for the development of a European cloud infrastructure and independently crafting rules on AI. Absent its own global technology firms to rival Amazon or Facebook, Europe has also sought to use its regulatory powers to create influence. This approach puts Europe in conflict with the United States in many cases. Likewise, the European Commission seeks to make the EU “the most dynamic data-agile economy in the world” and establish “European leadership in network technologies”; in this context, Europe views the United States as a competitor.

The United States and Europe share an interest in protecting their technological advantages and remaining competitive in key technological sectors.

In other areas, Europe perceives the United States as a greater challenge than China. The United States’ campaign discouraging Europe from implementing Chinese telecommunications giant Huawei’s 5G technologies, for example, has been seen by some in Europe as a form of U.S. protectionism. This is because Europe believes that Washington has taken trade-restrictive actions—including actions against Europe—based on dubious security grounds. The Trump administration’s head-spinning reversal of its decision to ban U.S. companies from selling parts or providing services to ZTE, a Chinese telecommunications company, further undermined U.S. security arguments and reinforced some Europeans’ view that the United States is using issues like 5G as leverage in its trade negotiations. Similarly, some Europeans view the U.S. push to restrict the export of sensitive technologies to China as being driven by a U.S. desire to contain or slow China’s technological rise and gain advantage in the U.S.-China trade war. Given these concerns, the rollout of new U.S. rules to restrict the export of sensitive technologies to China risks becoming an additional source of tension in transatlantic relations.

Data privacy is another source of U.S.-European tension. Europe perceives the U.S. privacy regime as weak, insufficient, and just as dangerous as China’s privacy regime. The European Court of Justice, for example, recently invalidated the U.S.-EU Privacy Shield agreement, which regulated flows of personal data used for commercial purposes between the U.S. and Europe.¹² The court decided that expectations of U.S. protections on EU citizens’ data had not been met. It will be incumbent on the United States to show that China is the greater problem in these areas.

Likewise, transatlantic views on regulation and competition policy also diverge. On regulation, differing U.S. and European philosophies create barriers to trade, irritants in the relationship, and obstacles for U.S. technology companies. Further, the United States and the EU take different approaches to competition and antitrust law, with the EU taking a hard-line approach and the United States favoring a lighter touch. The result is often that the EU fines U.S. companies for violations of EU competition law that would not be violations of U.S. antitrust laws.¹³ For example, the EU has developed a swath of proposed regulations aimed at curbing the alleged anticompetitive behavior of U.S. technology companies—another area that risks hindering cooperation.¹⁴

The United States and Europe must work to address these challenges and prevent China’s pursuit of technology leadership from exacerbating fissures in the alliance. Neither the United States nor Europe will have the capacity to be a global leader in all technologies. But the two sides can work to ensure that, collectively, like-minded democracies lead.¹⁵ The stakes are too high for either to go at it alone.

Despite these challenges, there remain several areas where the EU and the United States can secure technological advantages and push back on Beijing. They should:

PROTECT U.S. AND EUROPEAN TECHNOLOGY ADVANTAGES

Work with like-minded allies including Japan, South Korea, and Taiwan to share best practices and establish multi-lateral export controls on critical technologies. Currently, EU member states implement the EU’s export control guidance unevenly, creating a critical barrier to efforts to effectively protect Western technological advantages. The European Union should work to improve implementation across member states. Meanwhile, the U.S. Department of Commerce’s Bureau of Industry and Security and its counterpart agencies in European countries should share best practices on building and fostering export control regimes.

Moreover, the United States and EU should work together to identify critical technologies worthy of export controls. The transatlantic partners should broaden such discussions with like-minded allies using the Wassenaar Arrangement—“the first global multilateral arrangement on export controls for conventional weapons and sensitive dual-use goods and technologies.”¹⁶ It will be also important to include Taiwan, which is not a member of the Wassenaar Arrangement, in such discussions given its importance as a producer of semiconductors.

Increase commercial intelligence sharing between the United States and Europe. China presents a clear economic espionage threat to the transatlantic partners. From 2011 to 2018, China constituted 90 percent of U.S. Department of Justice economic espionage cases involving a state actor and two-thirds of the department’s trade secret theft cases.¹⁷ Yet the transatlantic partners often do not share data across countries on trade theft or forced technology transfer cases. In close coordination with the U.S. intelligence community, the U.S. Department of Commerce should collaborate with the private sector to share commercial intelligence and to develop both clear threat assessments of the risks China poses to industry and a plan to counter them.¹⁸ Likewise, the intelligence agencies of the United States and EU member states—along with those in like-minded countries such as Japan, Canada, and Australia—should increase their cooperation in sharing commercial counterintelligence with each other. For example, the relevant U.S. and European intelligence and government agencies could create an empirical base of knowledge on technology transfer, supported by robust data collection and analysis.¹⁹ This move would enable allies and partners to enhance public awareness of technology transfers.

ENHANCE WESTERN-LED INNOVATION

Develop industrial strategies and capabilities in concert. The transatlantic partners can be most competitive if they coordinate on industrial strategies and build capabilities together. The U.S. Department of Commerce and the European Commission must work to avoid decoupling and to coordinate their industrial strategies and capabilities. The two should consider formalizing this cooperation through a U.S.-EU-Japan Technology Alliance.²⁰ Areas ripe for cooperation include telecommunications, advanced machinery, biopharma, semiconductors and computing, and software.²¹

Open innovation ecosystems and pool research and development (R&D) funding. Today, the United States no longer dominates global R&D. But it and six like-minded nations together represent more than 50 percent of global R&D investment.²² In contrast, China accounts for 26 percent of global R&D, while Russia contributes just 2 percent. As R&D investments increase globally, international alliances are necessary to succeed in the global landscape.²³ Washington and Brussels should create incentives for joint pilot projects, to be underwritten by joint R&D funds. For example, Europe could establish that any program replacing Horizon 2020—an EU research and innovation program dedicated to spurring innovation and growth—would be open to U.S. firms. Likewise, the United States could reciprocate by opening up the 14 Manufacturing USA Institutes to European firms.

Build the transatlantic workforce to lead innovation in technology. The United States and Europe should increase their investment in STEM education at all levels and work to attract top talent, especially in the technology sector. For the United States, despite its long track record of attracting the world’s best and brightest, recent research suggests there is now a “skills gap,” especially in AI, where demand for talent outpaces domestic supply.²⁴ Immigration will continue to play an important role in filling this gap, but current U.S. policies are inadequate to maintain, if not detrimental to, America’s ability to remain competitive. The United States should learn from immigration reforms in some European countries to improve temporary visa options for skilled workers, expand opportunities for permanent residency, and expand opportunities for entrepreneurs.

Work through NATO to promote and coordinate defense innovation to secure NATO’s military edge. NATO is an important vehicle for spurring joint innovation. The United States should work through NATO’s Defence Planning Process to identify allied military gaps that are vulnerable to being filled by purchases from China and should develop allied innovation goals that can help alliance members fill the gaps themselves. NATO member states should prioritize jointly building future technologies that will underpin military capabilities, such as quantum computing, AI, and sixth-generation wireless technology (6G). Allies will need to coordinate developments in AI and its regulations to ensure that systems remain interoperable and that China does not secure the upper hand in this pivotal technology.²⁵

COMPETE WITH CHINA'S DIGITAL INFRASTRUCTURE

Create a multilateral coalition of the U.S. and like-minded allies to develop fifth-generation wireless technology (5G) risk assessments. EU member states perceive the U.S. campaign against Huawei as self-interested and protectionist. The United States should work with like-minded allies, such as Poland, the Czech Republic, Estonia, and Australia, to develop risk assessments of implementing Huawei 5G technology with EU member states.²⁶ These assessments should build on the EU's coordinated risk assessment of 5G security. A multilateral effort would remove the toxicity from the conversation about implementing Huawei 5G.

Encourage joint R&D and the deployment of open radio access network solutions for 5G. The United States, Finland, Sweden, Japan, and South Korea should encourage joint R&D and the deployment of open radio access network solutions for 5G. Open architecture solutions consist of proprietary software that runs on vendor-neutral hardware. These solutions provide an alternative to Huawei's 5G infrastructure that decreases reliance on a single provider and bolsters U.S. and European industry.²⁷ Joining forces with telecommunications technology leaders Japan, South Korea, Finland, and Sweden would harness the knowledge of the world's telecommunications experts and incentivize the relevant companies and governments to promote open architecture as a preferred alternative.²⁸ A multilateral coalition could help new and existing companies, such as Nokia, Ericsson, and Samsung, transition to open interfaces and enable these technologies to proliferate to other countries as an alternative to the status quo.²⁹

Give European allies incentives to procure secure 5G technologies. Because 5G networks will underpin internet-of-things devices and military technology, and affect the interoperability of forces, spending on secure 5G technologies should count toward NATO's 2 percent spending goal for member states.³⁰ Counting expenditures on secure 5G technologies toward NATO's 2 percent spending goal would encourage allies to prioritize implementing such technologies.

Create alternatives to China's digital infrastructure projects in Europe and across the globe. The United States and Europe should develop a joint fund, or, at a minimum, align priorities, for funding digital infrastructure projects to create alternatives to China's Digital Silk Road and 17+1 countries.³¹ Risk assessment analysis suggests that the fund should prioritize

providing alternatives to those countries that are both most critical to support and most vulnerable to Chinese investment.

SET NORMS AND STANDARDS

Increase alignment on data privacy to counter China's noncompliance with data privacy. Differing conceptions of U.S. and European data privacy regimes remain a critical barrier to transatlantic cooperation to confront China's rise in the technology domain. The absence of U.S. national data protection legislation is also an obstacle. The United States and Europe should design clear guidelines around commonalities to distinguish the democratic from the authoritarian approach.³² Increased data privacy alignment would allow the allies to push back on China's noncompliance, enable negotiation of the harmonization of digital trade rules on data flows, and serve as a model for the rest of the world. Furthermore, data underpin most future technologies, including AI systems, so increased convergence on data privacy regimes would ensure that the allies could cooperate on emerging technologies and that NATO interoperability would not be diminished.

Jointly develop technologies, align regulations and standards, and promote democratic norms. The United States and Europe should work to jointly develop norms and standards on strategic technologies. For one, they should embark on joint pilot projects on such matters as AI systems, 6G, virtualized networks, and quantum computing, to bake democratic values into the technology. The transatlantic partners should also develop joint regulatory sandboxes—closed testing environments to develop joint regulatory frameworks that balance promoting innovation and ensuring consumer protection. There is an urgency to focus aligning regulations on AI and AI-powered systems. Not only are these technologies rapidly diffusing, but the EU's *White Paper on Artificial Intelligence*, which puts forward a rigorous regulatory approach and privacy regime for AI systems, threatens to create a long-term wedge between the United States and Europe on norms, standards, and regulations for AI's use and development.³³ Further, the United States and Europe should use Track II dialogues and work together in multilateral institutions, such as the U.N., and standard-setting organizations, such as the International Telecommunication Union (ITU) and the 3rd Generation Partnership Project (3GPP, a coalition of telecommunications standard development organizations), to ensure that norms and standards are widely adopted.

COMBAT CHINA'S DIGITAL AUTHORITARIANISM

Prevent U.S. and European entities from enabling China's human rights abuses. The United States and Europe must ensure that U.S. and European entities are not enabling human rights abuses abroad. The United States should work multilaterally to create an end-user-based export control regime to restrict the export of dual-use technologies to companies using them for illiberal purposes, including censorship, surveillance, and targeting regime opponents. It should also work with like-minded allies to stop the proliferation of dual-use technologies, using means such as the Wassenaar Arrangement.

Raise the cost on China for technology-fueled human rights abuses and the proliferation of illiberal technology. Sanctions will be most effective when they are done multilaterally. Not only will they be more potent, but they send Beijing a stronger signal of cohesion and resolve. The U.S. Treasury Department should use the Global Magnitsky Act to sanction individuals and companies responsible for illiberal technology-powered human rights abuses and work to coordinate such sanctions with the European Union's forthcoming European Magnitsky Act and the United Kingdom's Magnitsky amendment to its Sanctions and Anti-Money Laundering Act.

Investment

China has long taken a predatory approach to its economic relationship with the United States and other industrial nations—taking advantage of their openness to propel its own growth.³⁴ In the past three years, however, both Washington and Beijing have pursued policies that have led foreign direct investment flows to decrease. In the United States, the Foreign Investment Risk Review Modernization Act (FIRRMA) of 2018 has empowered the government to scrutinize and block even small minority foreign investments in technologies deemed sensitive. FIRRMA reflects heightened U.S. concerns over the CCP's efforts—and those of government-backed and private entities—to use investment to access innovation and know-how.

The steps the United States has taken to enhance scrutiny of foreign investment improve U.S. national security and will better protect America's technological edge. Yet on its own, greater U.S. regulatory scrutiny will be insufficient to compete with China's practices. What Beijing cannot access in the United States, it will seek out in other industrialized nations. Already, China has gone on a buying spree across Europe. Between 2008 and 2018, more than 670 Chinese or Hong Kong-based

entities with significant ties to mainland China invested in Europe.³⁵ That was 45 percent more China-related activity across the European continent than U.S. investment during the same period.³⁶ Chinese investments span a wide array of European industries, including critical infrastructure, telecommunications, commercial property, transportation, health, energy, and even sports teams. They also take a variety of forms—from purchases to joint ventures to mergers and greenfield developments, in which developers and investors begin a project with a clean slate and without a legacy project on which to build. Chinese investments came to a peak in 2016, with foreign direct investment (FDI) transactions in Europe totaling €37.3 billion. Today that number is €12 billion in the wake of increased European scrutiny on Chinese investments.³⁷

National and local leaders in Europe initially welcomed this tidal wave of Chinese investment, particularly as they struggled to cope with the aftermath of the 2008 financial crisis. While there were few greenfield projects, Chinese investment nonetheless brought jobs and much-needed capital, spurred economic growth, and sometimes led to new, private sector research partner-

Despite repeated claims by the Chinese government about “win-win” results, at least some Europeans have come to reach a different conclusion.

ships. At least initially, Chinese investment also increased market access for European firms in China. And during a period when many European leaders were facing severe economic constraints and conditionality demands from their partners, China's willingness to take decisions and mobilize finance quickly was equally appealing. In certain cases, Chinese investment saved companies that were on the verge of collapse. Volvo Cars, for example, became a competitive player in the luxury car market after Chinese investors bought it from Ford Motor in 2010 and injected \$10 billion into its new models.³⁸

In recent years, though, Europeans have become much more aware of the challenges and risks associated with Chinese investments. Despite repeated claims by the Chinese government about “win-win” results, at least some Europeans have come to reach a different conclusion. As a result, Europeans have taken concrete steps to address the challenges. Most notably, in March 2019, the European Union created an investment screening regulation designed to foster greater transparency of Chinese

investment in Europe, promote best practices among EU member states to effectively restrict Chinese investment, harmonize an array of national investment screening policies across the European continent, and protect especially sensitive industries, such as critical infrastructure, emerging technologies, and dual-use items such as semi-conductors. (China created a similar measure in 2011.³⁹) That regulation, which enters fully into effect in October 2020, has already begun to shape the environment for Chinese investors in Europe, particularly as it has been paired with a tightening of national-level mechanisms in many major European states and the introduction of new mechanisms in states that did not already have them. This has been one of the major factors contributing to the decline in Chinese foreign investment in Europe, as Chinese companies have taken stock of the changing political context.

The United States and Europe, therefore, have ample opportunity to more closely coordinate and align their policies on foreign investment.

Implementation of these new regulations has been uneven, and it is individual member states—not the EU—that continue to hold the authority to block specific investments. The United States and Europe, therefore, have ample opportunity to more closely coordinate and align their policies on foreign investment. Doing so will be critical to mitigating the risks—defined below—that China’s approach to foreign investment poses for the United States and Europe.

Reducing transparency. Individual investors’ ties to the CCP are often murky. Because the line between the public and private sectors in China is fuzzy, it isn’t always easy to determine who calls the shots and how any particular investment could be used to further the government’s foreign policy aims. This presents a particular challenge in dual-use sectors, where a company’s ties to the Chinese military are unclear. In China, state-owned enterprises are not the only companies with ties to the state. The state can also influence or direct state-invested entities and private companies to meet national economic and industrial goals. The CCP’s moves to set up party cells in private sector companies and the heightened pressures on the private sector to align with political goals have further eroded the distinction.

Increasing Chinese influence. China uses investment and economic power to prevent unified positions against its interests, on issues including Tibet, Taiwan, and the South China Sea. Whether dealing with a country such as Montenegro, which owes China money, or a country that recently received Chinese medical equipment to combat the coronavirus, China is rarely subtle about what it expects in return. For example, shortly after Chinese shipping company COSCO invested in Greece’s Piraeus Port, Greece blocked an EU statement in the U.N. Human Rights Council criticizing China for human rights abuses in 2017.⁴⁰ In March, after a large shipment of respirators and masks arrived in the Czech Republic from China, the Chinese ambassador in that country criticized the Czech foreign ministry for launching a new cooperative research project with Taiwan tied to the pandemic.⁴¹ The message here is clear: Chinese investment and assistance come with a price.

Increasing Chinese leverage and dependence on Beijing. Beijing calculates that investments in infrastructure will facilitate its access to emerging markets and ability to set standards for things like communications and transportation, thereby giving Chinese companies the upper hand over foreign competitors.⁴² Through the Belt and Road Initiative (BRI) in particular, China seeks to increase countries’ dependence on Chinese supply chains. In addition, a number of BRI projects have garnered little revenue for host countries, leaving these countries unable to pay back their debt to Beijing.⁴³ In some instances, countries struggling under debt burdens to which Chinese loans (which often feature high interest rates and short maturities) contributed have faced pressure to offer collateral, which has even included China’s taking control of national assets such as seaports. In the small Balkan country of Montenegro, for example, a Chinese loan that helped the country begin to build a superhighway connecting its coast with Belgrade, Serbia, has sent public debt soaring. The government was forced to “to raise taxes, partially freeze public sector wages, and end a benefit for mothers to get its finances in order.”⁴⁴ The highway still hasn’t been completed, and Montenegro, a newly minted member of the NATO alliance, remains saddled with Chinese debt.

Diminishing transatlantic economic competitiveness. Chinese investment is targeting the United States’ and Europe’s highly prized industrial sectors, including the technology, maritime, aerospace, biopharma, and energy sectors.⁴⁵ As Mark Leonard of the European Council on Foreign Relations recently wrote, “China is no longer

merely competing for a share of low-value-added production. It is quickly climbing up the global value chain and penetrating the very sectors that Europeans regard as central to their own economic future.”⁴⁶ China seeks to gain a foothold in sectors that will undermine U.S. and European competitiveness.⁴⁷ By acquiring and investing in critical technology companies, it aims to obtain the technologies without having to innovate at home, allowing Chinese firms to manufacture their products at a lower price and flood the market. China also furthers this goal through forced technology transfers and through economic espionage. Simply put, Chinese investment comes at a cost to transatlantic economic competitiveness.

Restricting access to Chinese markets. Europeans also complain about a slew of broken promises from Chinese investors. Contrary to what they were told years ago, European CEOs have found that access to Chinese markets simply hasn’t materialized in the ways they were promised, with obstacles ranging from equity caps and formal restrictions through negative lists to a range of discriminatory advantages for Chinese firms. In cases where European companies do break into the Chinese market, they are often required to operate through joint ventures with Chinese partners that can insist on accessing highly sensitive technology. By contrast, Chinese investments in Europe have given China remarkable access both to its markets and to technology that it lacks and desperately wants—which is why “reciprocity” has become such a popular phrase among EU policymakers when they talk about China.

Threatening supply chains. The COVID-19 pandemic has exposed Europe’s dependence on Chinese supply chains, especially for medical supplies. Even before the pandemic, though, European calls to diversify supply chains were increasing in both frequency and volume, particularly given Beijing’s growing willingness to weaponize its position as a production hub. Throughout 2019, as individual countries debated the risks associated with relying on Huawei for their 5G telecom networks, Europe’s overreliance on China became glaringly apparent. If Europe wants to reduce China’s ability to disrupt supply chains, either in a deliberate attempt to exert leverage or in the face of another unexpected crisis, it will have to find a way to balance one of its core values—open markets and the free movement of capital—with the desire to protect itself.

Enhancing Chinese military capabilities. The CCP not only invests in critical technologies and companies to acquire an economic advantage—it also does so to secure a military advantage and boost its own military capabilities. In January 2017, a Chinese firm acquired KUKA Robotics Corporation, a German high-tech robotics manufacturer.⁴⁸ Because KUKA technologies often underpin military capabilities in both Europe and the United States, U.S. regulators objected to the sale, and KUKA was forced to sell its Aerospace North America division, which had contracts with the U.S. Department of Defense. In the same time period, there was an uptick of high-profile cases in which individuals, acting on behalf of the Chinese military, sought to acquire U.S. technologies for military use.⁴⁹

Threatening NATO mobility and cohesion. China’s investment in European infrastructure has the potential to interfere with NATO mobility—the ability to maneuver its troops, tanks, and other equipment across Europe—which is a critical capability that NATO members are working to improve. China has significantly increased its investment in European ports, particularly in Greece, France, the Netherlands, Italy, and Spain. State-backed Chinese investors own at least 10 percent of all equity in ports in Europe.⁵⁰ China’s investment in other infrastructure, such as rail, could also diminish NATO mobility if, for example, Chinese rail lines aren’t built to carry heavy equipment.

Here, too, China’s deepening relations with Russia bring the challenge to Europe’s front door. It is not hard to imagine a scenario in which China’s economic influences converge with Russian hybrid tactics in ways that could undermine NATO’s Article 5. For example, China could use its control of ports and rail to delay a NATO response to Russian aggression. Beijing could also use the economic leverage it has amassed to quietly dissuade an already reluctant NATO member state from responding to a sub-Article 5 Russian attack, eventually serving to discredit the principle of collective defense.⁵¹

China’s investment in European infrastructure has the potential to interfere with NATO mobility, which is a critical capability that NATO members are working to improve.

**CHINESE INVESTMENT IN EUROPE
POST-COVID-19**

In the face of the COVID-19 pandemic and economic crisis, the EU has been keeping a watchful eye on Chinese investors that, just as they did in the wake of the 2008 financial crisis, are looking to snatch up financially distressed companies. There are already signs that Chinese investors are bargain-hunting. In April, a Chinese state-owned venture capital fund tried to stage a boardroom coup that would have seen it taking control of one of the top two UK chipmaking powerhouses, Imagination Technologies; in May, a Chinese company bought a stake in Norwegian Air; and in June, CRRC Zhuzhou Locomotive purchased a German locomotive company.

In response, the EU has taken additional measures to protect specific industries. In March, as the pandemic was hitting its peak in Europe, the European Commission issued guidance to member states that reiterated the importance of investment screening, offered to expedite the implementation of the information-sharing elements of the new mechanism, and stated the “increased potential risk to strategic industries, in particular but by no means limited to health care.”⁵² In June, the commission, in a remarkable show of unity, announced a wide-ranging set of proposals to deal with foreign subsidies, which include requirements for foreign investors to disclose if they receive state support, in order to prevent them from using state subsidies to outbid competitors in Europe.⁵³ The EU also unveiled a new recovery fund, which will provide financing to EU member states so they can rebuild their economies and protect themselves from having to sell critical or sensitive companies to China. Although that support may not be enough for the poorer countries, which may still be tempted by Chinese loans and investments as a means to survive the fallout from the pandemic, it is a major departure from the situation that southern European states faced during the sovereign debt crisis.

Investment as a Transatlantic Project

The United States and Europe increasingly look at Chinese investment with a skeptical eye; they have observed or experienced firsthand some of the associated risks. Both sides of the Atlantic have expressed a desire to reduce their dependency on Chinese trade and investment, and they share an interest in helping the private sector develop ways to protect itself from Chinese bullying and coercion. In the wake of the COVID-19 crisis, the calls in both the United States and Europe to diversify supply chains

and shift trade relationships to other regions and countries have grown louder.

Despite these shared interests, though, the two sides of the Atlantic have so far failed to formulate a joint strategy to reduce the risks and vulnerabilities associated with Chinese investment.

There are a few different reasons for the disconnect between shared interests and joint action. On the European side of the Atlantic, Europeans have a much more sophisticated view of China than they did just three years ago, but EU member states remain divided on the risks that come with Chinese investment. Not every country in Europe has experienced a huge surge in investment, and many still see themselves catching up to the levels that major western European states have experienced. Nor has every country encountered serious challenges with Chinese investment. Countries such as Greece and Portugal tend to take

In the wake of the COVID-19 crisis, the calls in both the United States and Europe to diversify supply chains and shift trade relationships to other regions and countries have grown louder.

a far less alarmist view, especially given the experiences they faced in the absence of access to other forms of capital. In addition, outside a core group of economies, many European economies do not have advanced technologies for Beijing to acquire, so aside from investment in the infrastructure sector, many Chinese investments are not seen as sensitive in those places. And generally, the EU isn’t particularly well positioned or staffed to monitor and address highly complex policy questions at the nexus of technology and security. As a result, Europe still lacks a single, harmonized policy and view on Chinese investment.

On the other side of the Atlantic, the Trump administration’s attempts at a transatlantic strategy on China have often consisted of little more than a list of demands. Although there have been working-level efforts to ensure closer alignment on investment screening rules and export controls, even they have often taken a unilateral form. American officials have issued stark warnings about borrowing from China, ordered individual European countries to block specific sales to Chinese investors, and told

Europeans that if they don't prevent Huawei from building their 5G telecommunications networks, intelligence sharing with the United States will end. Europeans have expressed two sets of grievances with this approach. One, they have grown tired of a one-way conversation in which the Trump administration orders Europe around but rarely acknowledges European views or proposes any lasting or truly collaborative initiatives on China as a transatlantic project. Two, they have come to question American motives when U.S. policymakers warn about the security risks of Chinese investment. Europeans ask, for example, whether President Trump is genuinely worried about the security risks of working with Huawei or is simply using the issue as a bargaining chip in trade negotiations. Former National Security Advisor John Bolton's claims that President Trump offered to walk away from the Huawei prosecution if doing so would help advance the U.S.-China trade deal only confirmed European suspicions.

Even if Brussels and Washington didn't face the challenges outlined above, the truth is that the two sides of the Atlantic would still have some fundamental policy differences when it comes to Chinese investment. While the pandemic has triggered more conversations in Europe about the importance of diversifying supply chains, few Europeans would argue for economic decoupling from China, as advocated by certain members of the Trump administration. European countries have also benefited from the blows that the United States and China threw against each other during the beginning of the trade war. Furthermore, the two sides of the Atlantic take different approaches when it comes to export controls, especially regarding dual-use products. Europeans and Americans also look at state aid in a different light—which made it hard to reach a strong common position in the EU-U.S.-Japanese trade ministerial talks in 2018–2020. Finally, Europe and the United States put different emphasis on climate standards and climate-friendly investments—something that, at least with the current administration, is not an American priority.

Despite these obstacles, there remain concrete steps that the EU and the United States can take separately and together to fortify their defenses against Chinese investment. They should:

COUNTER CHINA'S BELT AND ROAD

Provide joint consultations to countries considering Chinese investment. The United States and Europe should work with countries considering Chinese investment to help conduct risk assessments that highlight

common pitfalls. Such efforts are taking place through the Blue Dot Network—a group of public, private, and civil society actors dedicated to building and financing quality infrastructure projects⁵⁴—and the United States, which has provided legal and financial advice to BRI states through the U.S. Free and Open Indo-Pacific strategy. These conversations should be expanded and conducted in coordination with the EU. The aim of such consultations would not be to persuade third countries to avoid Chinese investment but to help them negotiate better deals. For example, in 2018, the United States used this strategy to help Myanmar renegotiate a port deal with China.⁵⁵ The United States and Europe could use this strategy in the Balkans and Africa, which are particularly vulnerable to Chinese investment projects.

Develop a U.S.-EU investment fund and engage regional partners. A joint investment fund would present countries with an alternative to Chinese investment projects, support investment projects abroad, and counter China's investment strategy. Such an initiative would build on the work of the U.S. International Development Finance Corporation, the U.S. Blue Dot Network, and the EU's Connectivity Strategy (which outlines the EU's strategy for connecting Europe and Asia through transport links, digital networks, and energy networks and flows), which are already discussing closer coordination. Broadening outside of the transatlantic space—by working with countries such as Japan, which has already funded \$367 billion in projects in Southeast Asia to counter China's Belt and Road⁵⁶—would increase the potency of such efforts. The transatlantic partners could build on existing efforts such as the EU-Japan connectivity partnership and the U.S.-Japan-Australia commitment to Indo-Pacific infrastructure development.

Build a transatlantic public diplomacy campaign to more accurately depict China's Belt and Road practices. Some countries in Europe and many around the world still believe that China is a trustworthy benefactor. The U.S. and Europe should develop an information strategy that can draw from past examples to highlight the CCP's corrupt business practices, predatory lending practices, and strings-attached infrastructure and investment projects.⁵⁷ Expanding these efforts beyond the transatlantic partners to include voices from countries that have firsthand experience with the challenges that Chinese investment have created could enhance the credibility of such efforts.

STRENGTHEN INVESTMENT SCREENING MECHANISMS

Use FIRRMA regulations to push Europe toward more effective national screening mechanisms. The United States should push Europe to adopt more stringent national screening mechanisms. FIRRMA regulations stipulate that if countries adopt national screening mechanisms, they will be more likely to be considered for the Committee on Foreign Investment in the United States (CFIUS) white list, which allows countries to more easily invest in the United States. The United States should use inclusion in the CFIUS white list as a carrot to convince the limited number of European allies that still lack their own national screening mechanisms to adopt them.

Use the Financial Action Task Force (FATF) to push the United States toward greater transparency. Europe should use the FATF as a mechanism to push the United States to adopt beneficial ownership laws for greater transparency regarding who owns and controls a company, trust, or foundation. While EU member states are required by law to maintain corporate registries, the United States has no such requirement.⁵⁸ Adopting beneficial ownership laws would enable it to monitor Chinese money laundering activities within its borders. Germany became the president of the FATF in July, taking over from China, providing an opportunity to use the FATF to push the United States toward more transparency laws.

Use antitrust policies to address unfair and distortionary practices of Chinese firms. The United States could learn from the recent EU decision on state subsidies, which aims to prevent China from using state subsidies to purchase European assets, to determine how it could shape its own antitrust policies to follow suit.⁵⁹

BROADEN INVESTMENT SCREENING DIALOGUES AND TRANSATLANTIC COORDINATION

Create regular executive agency dialogues to coordinate on investment screening decisions. The United States and Europe should establish regular dialogues between the U.S. Treasury Department, the European Commission, and key member states to coordinate on investment screening decisions and to share best practices.⁶⁰

Strengthen transatlantic information and intelligence sharing as Europe and China negotiate the Comprehensive Agreement on Investment (CAI). The United States and Europe should also strive for greater complementarity and a better exchange of information

between the CAI and the ongoing U.S.-China trade talks. This could also help both U.S. and European regulators make more informed decisions when it comes to Chinese investment.

Broaden the dialogue on investment screening beyond the European Union and the United States. Assuming that the EU and the United States succeed in coordinating their separate approaches to investment screening, the two sides of the Atlantic should expand their dialogue and collaboration beyond the transatlantic relationship. The Organization for Economic Co-operation and Development (OECD) is already pursuing this idea, with talks on investment screening among its members. But the two sides of the Atlantic should seek additional opportunities to learn from democracies such as Japan and Australia, which have valuable lessons on managing Chinese investment.

Assuming the EU and the United States succeed in coordinating their separate approaches to investment screening, the two sides of the Atlantic should expand their dialogue and collaboration beyond the transatlantic relationship.

Expand the dialogue on Chinese investment to the private sector and academia. In order to protect transatlantic security, the United States and Europe will need to broaden the number and types of stakeholders in Chinese investment dialogues. They should increase information sharing and intelligence between the public and private sectors, specifically by including transatlantic sectoral information sharing and analysis centers (ISACs), information sharing and analysis organizations (ISAOs), and computer emergency response teams (CERTs).

Strengthen NATO-EU cooperation on Chinese investment. To the extent that Europeans have been interested in developing new tools to minimize the risks associated with Chinese investment, their clear preference has been to work through the European Union. That said, NATO also has a role to play given some of the security challenges created by Chinese investments in critical infrastructure. The alliance conducted its first China review in 2019 and is only beginning to examine the ways in which Chinese investment could threaten the safety

and security of the NATO allies. NATO and the EU should enhance consultations on these issues, conduct joint monitoring of specific acquisitions or takeovers—especially ports—and help educate member states on the risks.

Enhance intelligence sharing among EU member states and between the EU and the United States on foreign investment screening. EU member states should harmonize their approaches to foreign investment screening by sharing risk assessments and information on companies that are being blocked by respective member states. The United States should also do more to share counter-intelligence as well as risk assessments and analysis of the entities on the Chinese side.

Enhance dialogue between the U.S. Congress and European parliaments. The United States and European capitals should establish regular exchanges among parliamentarians and members of Congress on many of the themes in this report. As the American Institute for Contemporary German Studies recently stated in a report on transatlantic cooperation on China, the U.S. Congressional AI Caucus and the Bundestag Study Commission on AI, for example, could consult “to reduce divergences in legal and regulatory approaches and create an environment that reinforces transatlantic competitiveness in emerging technologies.”⁶¹ The transatlantic partners should also encourage more U.S. members of congress and European parliamentarians to join Inter-Parliamentary Alliance on China (IPAC), a multinational initiative created in 2020 to pursue a new “strategic approach” to China.⁶²

LOOK BEYOND CHINESE INVESTMENT

Monitor R&D collaboration. As Chinese investment has dropped in recent years, Chinese companies have increased their R&D cooperation with European firms and academic institutions. Although many Europeans find this type of collaboration to be beneficial, a recent report from MERICS in Berlin noted that “R&D partnerships often provide Chinese parties with access to potentially sensitive European assets, sometimes without European counterparts even noticing.”⁶³ Because European FDI screening regulations do not apply to such partnerships, the report recommends that both European policymakers and the companies involved do more to scrutinize these collaborative arrangements much more closely for security risks. This area also merits much more transatlantic cooperation and coordination.

Trade

China is and will remain a dynamic and growing market, a key innovator, and a driver of the global economy. In 2019, China was the United States’ third-largest trading partner in terms of goods (with total trade at \$558.9 billion), the third-largest U.S. export market (at \$106.6 billion), and the largest source of U.S. imports (at \$452.2 billion).⁶⁴ The European Union has an equally significant trading relationship with China. China is the EU-27’s second-largest trading partner after the United States (with total trade at €560 billion), its largest source of imports (at €362 billion), and its third-largest export market after the United States and the United Kingdom (at €198 billion).⁶⁵ While the United States and Europe want to take advantage of the opportunities offered by economic exchange with China, both sides must also recognize the challenges.

In particular, the CCP is playing an increasingly direct and powerful role in the economy. Just as Xi has consolidated power and rolled back the norms of China’s post-Mao Zedong collective leadership system, so, too, has he asserted the party’s role within the state and economy.⁶⁶ The CCP is pursuing policies such as Made in China 2025, which aims to increase China’s market share in 10 key sectors and reduce its dependence on foreign technology imports. To accomplish

China’s illegal and unfair trade practices pose a direct threat to U.S. and European innovation, prosperity, and competitiveness.

this goal, the CCP plays a heavy role in directing and supporting Chinese business, through means including government-set targets, government-guided and government-directed funds, subsidies, tax breaks, low-cost loans, trade and investment barriers, and discriminatory practices on intellectual property, procurement, and standards. These tools—combined with a history of technology theft—have major consequences for the United States, Europe, and the rest of the world.

China’s illegal and unfair trade practices pose a direct threat to U.S. and European innovation, prosperity, and competitiveness. If left unchecked, the CCP’s tactics and approach will continue to handicap U.S. and European economic operators

from competing with China on an equal footing. Over time, China's practices would allow the CCP to increase its ability to change the economic and legal rules of the game and other standards in ways that privilege Chinese interests.

To address these challenges, the United States cannot go it alone. The United States and China are currently locked in a serious trade skirmish that could easily escalate into a full-blown trade war. The Trump administration has sought to force change in China, but its approach has not fixed the distortions caused by the Chinese government's intervention in the economy. Moreover, the United States cannot singlehandedly stop the leakage of technologies that China uses to advance its military capabilities.⁶⁷ As long as the United States and Europe pursue their own, independent courses, the challenges that China poses—especially those outlined below—will only grow and fracture the transatlantic relationship.

Undermining transatlantic competitiveness. In China's economic system, the CCP—and the state—acts not only as a regulator but also a central market actor that directs corporate and industry decisions. The direct influence of the state is growing as the CCP upgrades and more forcefully implements its system of party cells. These groups intervene not only in the decision-making processes of state-run enterprises but also in joint ventures with private enterprises. China's large-scale national champions also give Beijing an advantage in global markets.

Distorting prices and markets. Beijing subsidizes Chinese companies and state-owned enterprises, particularly in sectors that are most central to the country's Made in China 2025 initiative, multi-level protection scheme, and five-year plans. Subsidies take on many forms—direct subsidies, government grants, tax benefits, and export credits—and regularly lead to overcapacities and market distortions in China. One result is that Chinese firms drive down their product prices, allowing products to flood Western markets at artificially low prices. Western companies, especially small and medium-sized enterprises, cannot compete against Chinese companies that have the support of Beijing's deep pockets.

Restricting access to markets. China utilizes trade and non-tariff barriers to minimize imports into its economy. In 2018—before the trade war with the United States intensified—China's average tariff level was 3.4 percent, whereas the U.S. average rate was 1.6 percent.⁶⁸ In addition, China has used non-tariff barriers in places

including the EU. In its 2018 report on trade and investment barriers, the EU noted that “for the first time, China has taken over as the country with the highest stock of recorded barriers, with 37 obstacles hindering EU export and investment opportunities.”⁶⁹ Such barriers apply to a range of goods and services, from telecommunications equipment to legal services and digital trade.

Forcing technology transfers and intellectual property rights theft. In addition to using foreign direct investment and acquisitions to acquire foreign technology, intellectual property, and know-how, Beijing also forces companies to transfer cutting-edge technology in return for continued access to its market. From 2016 to 2019, China was responsible for 80 percent of U.S. intellectual property seizures.⁷⁰ From 2013 to 2017, the Commission on the Theft of American Intellectual Property estimates, “the United States has suffered over \$1.2 trillion in economic damage” from Chinese intellectual property theft.⁷¹ Similarly, in 2019 the EU Chamber of Commerce in China stated that 20 percent of its members reported being compelled to transfer technology in order to secure market access—double the percentage from two years earlier.⁷² Not only do these measures exploit U.S. and European companies, but existing enforcement mechanisms fail to give the United States and Europe the options they need to punish China for flouting the rules it agreed to when it joined the WTO. For instance, in 2018, the EU challenged China's forced technology transfers in the WTO, but the case has not moved beyond the consultation phase.⁷³ In addition, when foreign companies consider reporting China for forced technology transfers or unfair trade practices, China threatens to retaliate economically.

Altering global standards. China seeks to translate its economic power into political influence. In the trade realm, this means that Beijing seeks to use its integrated trade policy to shape global norms and rules that suit China's domestic priorities and preferences.⁷⁴ Beijing has been particularly focused on setting the rules and technological standards underpinning new trade domains. It seeks, for example, to shape the rules governing e-commerce and to develop standards for emerging technologies. These efforts often entail moves to internationalize China's own domestic industrial standards.⁷⁵ China's status as the world's second-largest economy and its huge market mean that China has the ability to project its domestic policies on the international system. Likewise, China has made little effort to incorporate international standards into its own domestic markets.⁷⁶ Through its free trade agreements

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and ascendant leadership in standard-setting bodies such as 3GPP and the ITU, China also dilutes standards in areas such as the environment and the protection of intellectual property.⁷⁷

Coercing compliant behavior. Alongside China's social credit system, which monitors individual behavior, the state and private actors at the national and local levels are creating a network of initiatives that aggregate data on corporations operating in China.⁷⁸ As this effort develops, it will provide Beijing with leverage to compel behavior consistent with the CCP's interests. For example, the Civil Aviation Administration of China pressured multiple international airlines in early 2018 to change their websites' descriptions of Taiwan, stating that failure to comply would be recorded in each airline's social credit records. Low scores could, for example, reduce opportunities for public tenders or lead to higher tax levels. Looking forward, the CCP could seek to access and incorporate information on corporate behavior in markets outside of China in its scores.

Trade as a Transatlantic Project

There is strong interest across the European Union and in its member states to work more closely with Washington on China's trade challenges, precisely because China's policies hurt Europe too. Such receptivity marks a change in Europe, which was long reluctant to push back on China's trade practices given its exposure to the Chinese market and Beijing's threats of economic retaliation. However, in the past several years—sparked in part by sober analysis from the European business community—U.S. and European views of the economic challenges China poses have been converging.

Such convergence has created fertile ground for transatlantic cooperation on China in the trade domain. For one thing, the EU and European industry share U.S. concerns about China's technology acquisition through forced technology transfer, not least because they see Chinese products quickly catching up to and even surpassing theirs in many areas. Both sides also seek to prevent their economies from being swamped

by Chinese exports and to fight Chinese government subsidies. To address these challenges, growing swaths of U.S. and European policymakers recognize they must combine their economic influence if there is to be any hope of successfully compelling Beijing to change.

With so much agreement about the challenges China's economic and trade policies pose, the United States and Europe should be able to cooperate. Yet there are barriers that policymakers must overcome.

First, the transatlantic partners must navigate the trade tensions between them. These tensions not only thwart cooperation on addressing China on trade, but they also contaminate prospects for cooperation on China more broadly. The Trump administration blames "unfair" EU trade practices, particularly by Germany, for the U.S. goods trade deficit with the EU. The Trump administration also imposed Section 232, national-security-based tariffs on steel and aluminum imports, on EU member states. Europeans see the rhetoric and actions taken by the Trump administration as evidence that the United States views Europe as a foe and that Washington no longer values the partnership in addressing shared challenges.

Beyond the rhetoric and actions of the Trump administration, the high level of commercial activity across the Atlantic means that genuine disagreements on policy issues inevitably emerge. The 15-year-long U.S.-EU Boeing-Airbus dispute, regarding state subsidies on both sides of the Atlantic, is a case in point. Additional points of friction exist over digital trade, data protection, and tax issues, some of which the United States sees as trade barriers. In December 2019, for example, the United States Trade Representative (USTR) found after a Section 301 investigation that France's digital services tax discriminates against U.S.-based technology companies. In June 2020, USTR launched a similar investigation against similar digital services taxes being considered or implemented by the United Kingdom, the European Union, and a number of EU member states.⁷⁹

The U.S. and EU also have diverging approaches to competition. The United States, with its huge market, both grows and accepts enormous firms that are better able to compete with China's national champions. The EU's competition law, in contrast, can actively discourage such large concentrations, as it did in rejecting the Alstom-Siemens merger in 2019 over competition concerns. This disparity is not a divergence of approach in competition policy, but rather a difference in application, given the markets.

Further, differing approaches to pushing back against China's unfair trade practices come into play. While there

is strong bipartisan support in the United States for “decoupling,” or at least greater “disentanglement” from China, the EU prioritizes reciprocity with China and underscores that cooperation with China is essential for solving global problems.⁸⁰ Although it has taken a number of tough steps against specific Chinese behaviors, such as the WTO case against forced technology transfer, it sees such responses as firm, rather than confrontational. Moreover, the United

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States has been extremely unilateral in its approach. EU officials are particularly troubled by the Trump administration’s approach to the WTO and to unilateral trade enforcement outside of the WTO system. For example, the U.S.-China Phase One deal, signed at the beginning of 2020, created concerns in the EU about its potential effects on trade diversion.⁸¹ European officials are worried that Trump’s approach reflects a broader U.S. shift away from international cooperation and the Bretton Woods system.

Similarly, the United States has demonstrated limited political will to collaborate and often moves forward with escalatory actions with China without consulting Europe. In March 2017, it began to escalate its trade dispute with China by levying Section 201 tariffs on solar panels. This was the first of several U.S. escalatory actions, including Section 232 tariffs on steel and aluminum and Section 301 tariffs in response to China’s alleged theft of U.S. intellectual property rights and technology. The U.S. action would ultimately target a total of \$360 billion of Chinese goods and launch a trade war with China—without notice or coordination of its approach with the EU.⁸² The Trump administration has sought to justify its unilateralism by claiming that the EU (and others) wouldn’t be “tough enough” on China.

Despite these differences, the U.S. and Europe need each other to combat China’s unfair and illegal trade practices and ensure that a commitment to openness, transparency, and free trade prevails in the global economic order. Although American and European responses differ and may at times be in direct competition, there are several areas where the United States and Europe can harmonize their approach to secure the global economic order. The United States and Europe should:

REPAIR THE U.S.-EU ECONOMIC RELATIONSHIP AND REBUILD TRUST

Resume U.S.-EU trade negotiations. The United States and Europe should work together to reinvigorate transatlantic trade negotiations for a Transatlantic Trade and Investment Partnership (TTIP) successor. Although a full-blown agreement at the scale of TTIP is no longer possible, a narrower trade-in-goods or trade-in-services agreement or a bilateral investment treaty would open market access on both sides of the Atlantic and send a message to China. There are several key areas of dispute that should be left out of negotiation, including agricultural food safety issues, which would likely hinder or delay such an agreement.⁸³ In July 2018, then-EU Commission President Jean-Claude Juncker and President Trump laid the foundation for a free trade agreement that would improve market access for U.S. and European firms, but would be smaller in scope than TTIP.⁸⁴

Rebuild trust in the transatlantic trade relationship. The United States should reconsider the Section 232 measures imposed on EU member states, which have been ineffective and antagonistic to Europe. Similarly, the United States and EU should work to resolve the 15-year Airbus-Boeing dispute and ensure no further tariffs are imposed on either side. Further, they should come to an agreement on the digital tax and climate change issues through the OECD.⁸⁵

Revive the Transatlantic Economic Council (TEC). In 2007, President George W. Bush and German Chancellor Angela Merkel created the TEC to convene cabinet members and commissions for conversations about strategic issues in the transatlantic economic relationship. The TTIP negotiations sidelined the TEC, but the United States and European Union should reinvigorate it to build networks of government officials who can work together to address the China challenge.⁸⁶

Diversify supply chains. The COVID-19 pandemic has shown the risks associated with supply chains that are overly reliant on certain countries, such as China. The United States and Europe need to build partnerships with like-minded countries to take back parts of supply chains, including factories, development, and product design. Diversifying supply chains and concentrating them in democratic nations would increase their resilience.

PROMOTE A FAIR TRADING SYSTEM

Collaborate on World Trade Organization (WTO) modernization and reform. The United States and Europe need to develop a plan to reform WTO operations.⁸⁷ Their approaches are overall aligned, with the EU's September 2018 concept paper addressing many U.S. concerns about WTO operations.⁸⁸ China's recent non-market-economy case against the EU in the WTO presents a case study of how the United States and Europe can work together in the WTO to push back on China. China launched the case against the EU for the EU's treatment of China as a non-market economy, but the United States and the EU both provided evidence to support the decision—which led Beijing to pull the case after reports indicated the WTO was poised to rule against it.⁸⁹

Coordinate with the EU and Group of 77 democracies on upcoming appointments in industrial standard-setting bodies, such as the ITU and International Organization for Standardization. In the case of the election for the director general of the World Intellectual Property Organization (WIPO), the United States and group of 77 developing democracies (G77) worked together to put forward a Singaporean candidate for the position, who went on to defeat China's candidate. The United States, Europe, and G77 democracies should work together to identify candidates to compete against China's candidates in standard-setting bodies.

Bring a comprehensive case against China in the WTO. The United States and Europe should build a coalition of like-minded countries, such as South Korea, Mexico, India, and Argentina, building on the success of the EU's non-market-economy case against China in 2017, to launch a formal complaint in the WTO against China's economic distortions. The formal complaint should highlight China's violations of WTO law, including state subsidies, investment restrictions, transparency, trade, and theft of intellectual property.⁹⁰ Additionally, it should include a "nullification and impairment" complaint⁹¹ regarding China's non-market practices, which would show how China's non-market practices and trade distortions affect third countries and diminish the benefits and expectations they are entitled to as WTO members.⁹² A formal complaint would result in the implementation of reforms that would put China's economy on the right track.⁹³

Discipline China for its state-owned enterprises and state subsidies in the WTO. The United States, Europe, and Japan proposed trade rules to discipline China for its use of industrial subsidies in January 2020.⁹⁴ The United States and Europe should work together to push Beijing to sign on to these rules and to accept disciplinary actions for its industrial subsidies.⁹⁵

Invite China to join the export credit arrangement in the Organization for Economic Cooperation and Development. The Export Credits Arrangement sets rules for the use of export credits by member countries. It seeks to "encourage competition among exporters based on quality and prices of goods and services."⁹⁶ If China joined, Beijing would be prevented from offering the financing and loan terms that currently give China the upper hand.

SECURE U.S. AND EU TECHNOLOGICAL ADVANTAGES

Join the EU case against China's intellectual property practices. The United States should help create a more united front in the WTO by joining the EU case challenging China's intellectual property practices. In 2018, the EU filed a WTO complaint against China's intellectual property legislation that forces foreign companies to grant Chinese local entities ownership or usage rights.⁹⁷ The case is ongoing, and it covers a broader set of complaints than the 2018 U.S. complaint, which the United States suspended when China changed its domestic law to address it.⁹⁸

Share experiences with China's technology transfers. The United States, Europe, and like-minded allies should share experiences with China's technology transfers. A lack of knowledge about the nature and extent of China's forced technology transfer practices is a roadblock to proving the extent of the problem in the WTO. Intelligence agencies and commerce departments in all concerned countries should partner with their respective private sectors to increase counterintelligence collection on the challenge China poses in this domain. These countries should also share counterintelligence with one another.⁹⁹

Avoid lifting any of the Section 301 tariffs on China until it demonstrates measurable change. The United States should not lift any of the Section 301 tariffs, levied on China in response to China's unfair practices related to intellectual property and technology transfers, until China demonstrates measurable change. In several recent WTO cases levied against China, China has

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made small tweaks to domestic laws and legislation to satisfy the requirements of these narrow cases.¹⁰⁰ The United States should continue Section 306 monitoring and maintain the tariffs until China has demonstrated measurable change and ended forced technology transfer practices.¹⁰¹

Establish multilateral export controls on semiconductor manufacturing equipment. China is heavily dependent on imports of foreign-manufactured semiconductors to meet internal demand. As part of Beijing’s industrial policy to seize technological leadership, it is looking to reduce its reliance on foreign chips by ramping up domestic semiconductor production. The United States should work with allies—especially the Netherlands, given Dutch company ASML’s dominance in photolithography, a key component in semiconductor manufacturing—to establish multilateral export controls on semiconductor manufacturing equipment.

Global Governance and International Institutions

Since the end of World War II and especially in the post-Cold War era, global governance—the set of institutions, policies, and norms with which the global community addresses common challenges—has reflected the liberal democratic values shared by the United States and Europe. Today, however, the global pandemic has amplified concerns that the international system is buckling under the pressure of China’s rise. As the United States has called into question its commitment to global leadership, the Chinese Communist Party (CCP) has leaned in, seeking to reshape global governance. The Trump administration’s decision to terminate the United States’ relationship with the World Health Organization (WHO) is a case in point. U.S. withdrawal from international arrangements creates space for Beijing to bend such institutions to advance the CCP’s priorities and values.

Many in the United States and Europe long held that China’s growing influence could lead it to take on greater global responsibility on issues including climate change. Although many in Europe still look to China as a reliable partner on climate issues, optimism has faded in recent years amid growing concerns about the CCP’s global influence and activities. Although China touts its commitment to multilateralism (as it interprets it) and shared “values” with Europe as evidence that it is a better partner than Washington, it is increasingly clear that Beijing harbors broad ambitions at odds with the goals of the United States and Europe.¹⁰² Ultimately, it objects to the existing rules-based system founded on democratic values, among them the universality of human rights, on the belief that it privileges Western democratic societies. The CCP also sees liberal democratic ideals as threatening its very hold on power—as it described in a leaked 2013 memo known as Document No. 9.¹⁰³

In a 2018 speech, Xi Jinping called for China to “lead the reform of global governance.”¹⁰⁴ To this end, Beijing applies a combination of strategies to undermine and transform the current system. First, the CCP seeks to use its economic influence to shape political outcomes. Under the banner of “win-win” or “mutually beneficial” cooperation, Beijing rewards those countries that support China’s interests, or at a minimum do not challenge it on sensitive issues in international forums; conversely, countries that take positions that conflict with China’s core interests are denied access to these rewards and could be penalized.¹⁰⁵

The CCP also makes use of “discourse power”—the ability to voice concepts that are accepted by others and, by extension, the power to dictate the rules and norms that underpin the international order.¹⁰⁶ Changing human rights norms and controlling standards setting for new technologies within the U.N. system has been a particular focus. Concurrently, China has secured leadership positions at a number of United Nations agencies (see text box). Ultimately, China seeks to create a global governance system based on authoritarian principles in which state sovereignty is preeminent and economic development is a core multilateral function.¹⁰⁷

Looking forward, and especially if China’s economy continues to grow, Beijing will seek to more forcefully set the terms for global governance. If left unaddressed, its efforts to revise global norms could create the following risks for the United States and Europe:

Popularizing alternatives to liberal democracy. China is popularizing authoritarian governance as an alternative to democracy. Xi has publicly and repeatedly

explained that China's approach to development under authoritarianism offers a viable alternative for countries impressed by its rapid modernization. In this sense, China doesn't have to engage in autocracy promotion to weaken democracy. As other countries embrace aspects of China's development model, they become more likely to align with its values and approach toward governance. The possibility of no-strings-attached aid and other support from China also dilutes the United States' and Europe's ability to press for human rights and rule-of-law reform.¹⁰⁸

Sustaining authoritarianism. Beijing's support to authoritarian leaders, including the top cover it provides in international institutions, gives such leaders international legitimacy they can use to sustain their domestic standing. China's actions, in conjunction with those of Russia, to block multilateral intervention also create conditions conducive to authoritarianism and enable human rights abuses. Moreover, CCP efforts to promote cyber sovereignty provide diplomatic and political support to governments that want to control and restrict online information. Beijing's efforts to change norms and practices surrounding surveillance are popularizing new forms of digital repression, which research shows increases the durability of autocracies.¹⁰⁹

Weakening democratic norms. China directly contests liberal aspects of the international order from within that order's institutions and forums. Concurrently, the CCP is also building an alternative order through new institutions and venues in which China wields greater influence and can push back against the universality of liberal democratic norms, instead making appeals to "civilizational diversity" and the principle of noninterference in the domestic affairs of sovereign states.¹¹⁰

Rewriting the rules of the game. In areas where norms are still being established, such as internet governance, China works with other authoritarian countries to create standards that reflect its interests. The CCP, for example, views the open internet as a threat to regime legitimacy and domestic stability. It is therefore taking steps in the U.N. and other international organizations to push the more expansive concept of "information security" rather than what the United States and Europe prefer to term cybersecurity, facilitating greater control over content and communication tools that may threaten regime stability.¹¹¹ From the internet to surveillance and space, the CCP seeks to rewrite the rules of the game in ways that advance its own interests and that are often inimical to shared U.S. and European values.

Undermining coordinated global action. China's preference for rewriting the terms of global governance has the potential to deepen divides with countries that are committed to existing norms and institutions. Ultimately, such a divide could make it harder for states to collaboratively address major international challenges and could under-

U.S. withdrawal from international arrangements creates space for Beijing to bend such institutions to advance the CCP's priorities and values.

mine multilateral cooperation.¹¹² In the wake of COVID-19, for example, Beijing took a particularly unilateral approach toward global health that angered many around the world for its lack of transparency and failure to spread timely information about the disease's spread. After facing criticism for this response, the CCP unleashed an aggressive campaign to rewrite the narrative surrounding its actions so as to be seen as a benevolent global actor and as coordinating global action in the absence of U.S. leadership. Alongside aggressive messaging, Chinese aid to Europe was loudly advertised and often accompanied by pressure to publicly thank Beijing, in contrast to the U.S. and European tradition of providing quiet, no-strings-attached assistance.¹¹³

Governance as a Transatlantic Project¹¹⁴

A pattern of U.S. withdrawal from international arrangements and institutions has left many in Europe (and beyond) questioning the long-term commitment and dependability of the United States as a partner on common causes. Although this situation has complicated transatlantic cooperation across a range of global issues, growing recognition on both sides of the Atlantic of China's efforts to reshape governance presents an opportunity for action. The Trump administration recently created a new senior-level State Department position dedicated to working with allies and partners to address China's activities at the United Nations and to promote the foundational democratic values of the UN. In Europe, the CCP's coercive attempts to rewrite the global narrative about its poor handling of the novel coronavirus further increased recognition in Europe of Beijing's intentions to advance an ideological agenda at odds with liberal democratic values.¹¹⁵ The EU's High Representative Josep Borrell, for example, warned of a battle for geopolitical influence in the wake of the COVID pandemic, calling for EU solidarity vis-à-vis China.¹¹⁶

UNITED NATIONS AS A CCP PRIORITY

China's relationship to the United Nations provides myriad examples of the ways the country is working to influence the policies and actions of one of the world's preeminent multilateral organizations. In 2018, China passed Japan to become the second-largest assessed monetary contributor to the U.N. budget, at 12 percent, although it still lags significantly behind the United States and many European countries when considering all contributions (assessed and voluntary).¹¹⁷ In addition to its prized veto on the U.N. Security Council, China has undertaken a series of actions to alter the balance of power inside the U.N. system. In recent years, it has worked to secure leadership positions at four of the 15 U.N. specialized agencies. None of the other five permanent members of the U.N. Security Council, nor any other country, holds more than one. Chinese nationals currently lead the Food and Agriculture Organization, the International Telecommunication Union (ITU), the United Nations Industrial Development Organization, and the International Civil Aviation Organization (ICAO)—bodies together responsible for setting policies on issues including food security, technology standards-setting, and global aviation safety.¹¹⁸ In the case of the ICAO, Beijing has been able to successfully block Taiwan from participating since 2013.¹¹⁹

The CCP has also made progress in working to shape the substance of the U.N. system in support of its policy preferences. For example, China works to promote its signature international development policy, the Belt and Road Initiative, under the guise of support for U.N. Sustainable Development Goals.¹²⁰ It helps that since 2007, a Chinese diplomat has led the influential department charged with leading the U.N.'s sustainable development agenda. The CCP also advances its "discourse power" across the U.N. by strategically inserting preferred language such as "building a community of shared future for mankind," "mutual respect," and "win-win cooperation" into multilateral documents. Finally, Beijing employs coalition building—be it by shared authoritarian principles, or, in the case of many developing countries, financial incentives—to curry support for its policies and preferences across the U.N. system. Unlike any other U.N. member, China has the advantage of both holding veto power in the Security Council and being an influential participant in the G77 organization of developing countries at the U.N.¹²¹

The end result of these tactics is that China can now exert more influence than in the past, particularly in light of America's retreat, and it can push back against policies and norms aligned with Western values and promote alternatives. Beijing has used these strategies to great effect in two key U.N. institutions: the ITU and the Human Rights Council (UNHRC). Chinese leadership of the ITU is significant because of the CCP's push to shape the framework and still-developing set of norms around internet governance

in a way that contrasts sharply with U.S. and European support for a "free and open Internet."¹²² Beijing's desire for a greater and more authoritarian say over the rules and establishment of standards for cyberspace and emerging technologies should concern citizens in Europe and the United States. At the ITU, Zhao Houlin has used his leadership position to champion Beijing's priorities despite an obligation to remain neutral, taking actions including signing an agreement to advance telecommunication projects under the Belt and Road in Africa.¹²³ Zhao has also brushed off criticism of Chinese telecom company Huawei in its push to develop fifth-generation mobile networks worldwide and allowed Chinese tech groups to be involved in the development of new standards for facial recognition and other artificial intelligence-driven technologies.¹²⁴

For years China has tried to minimize scrutiny of its human rights record at the U.N., and there is growing evidence the CCP is working to more broadly undermine the global human rights system. This includes not only blunting criticism of its own abuses, in particular systematic violations against the ethnic Uighur population in Xinjiang, but strategically promoting state-led development, sovereignty, and noninterference in internal affairs, and implying that rights can be negotiated between states over existing norms that prioritize individual, inherent rights. The United States joined the UNHRC in 2009 but withdrew in 2018, citing concerns with the council's disproportionate focus on Israel and ineffectiveness in addressing human rights situations.¹²⁵ Meanwhile China has successfully organized passage of two resolutions at the UNHRC, one "suggesting that human rights must be balanced with economic development needs" and another asking that "cultural contexts be taken into account when considering human rights standards."¹²⁶ In April 2020, China was awarded one of five seats on the UNHRC Consultative Group. This body screens candidates for human rights positions across the U.N., and from this position Beijing is able to influence the selection of U.N. officials investigating China's own human rights abuses.¹²⁷ There has been justifiable criticism of the UNHRC since its establishment in 2006, not least for its composition of known human rights violators. Without the United States present, Europe's limited influence on the body's agenda and outcomes is further weakened. And, as in the ITU, absent deeper engagement and meaningful efforts at reform by like-minded democracies, the global human rights agenda at the UNHRC risks runaway control by the CCP. China has also made a point of using its leverage at the U.N. to get reductions in funding for human rights activities. In the past, China has proposed cuts that could eliminate dozens of positions for human rights officers, investigators, and experts on gender—actions that Beijing is likely to continue, commensurate with its growing strength in the organization.¹²⁸

In a perfect world, the United States and Europe, working in concert with other democratic partners, would unite to address China's rising governance ambitions. Yet such cooperation is not without real challenges. Differences in U.S. and European assessments of the nature of the China challenge and the divergences in their approaches have been real barriers to transatlantic cooperation on governance. U.S. policymakers have largely coalesced around a tougher policy approach that views China as a strategic competitor, but in Europe, despite the EU's labeling China a "systemic rival," a common position in favor of stronger China policies remains elusive. European countries continue to defend multilateralism and prefer to work through international institutions to advocate for democracy, human rights, and rule of law. They have found, however, waning U.S. support for their positions and even criticism of multilateral cooperation writ large.¹²⁹

A pattern of U.S. withdrawal from international arrangements and institutions has left many in Europe (and beyond) questioning the long-term commitment and dependability of the United States as a partner on common causes.

The U.S. withdrawal from the WHO may signal further U.S. retrenchment, and it promulgates the view that international organizations may be losing their "luster and effectiveness."¹³⁰ However, the announcement should also serve as a catalyst for re-examining the role these organizations should play in the preservation of democratic values and norms moving forward. Reform is undoubtedly overdue, and the United States and Europe should lead a reinvention of the system together from within. As architects of the existing rules-based world order, they hold a fundamental and strategic interest in preserving its overarching principles.

Managing the CCP's growing influence within international organizations and its efforts to reshape global governance will require a comprehensive and long-term strategy anchored by strengthened U.S.-Europe cooperation, together with like-minded partners. It will necessitate a unified, proactive strategy that more aggressively promotes a liberal, rules-based system

while deepening awareness of Beijing's ambitions to supplant it. The United States and Europe should:

RECOMMIT TO INTERNATIONAL INSTITUTIONS

Show up. The United States should return to participating and leading in multilateral organizations in which it holds strategic interest. European countries likewise should recommit to "showing up" in these organizations and seek ever greater opportunities to shape the agendas. Calls for reform of the institutions themselves can and should be led by the United States and Europe from within, in concert with other like-minded countries. In contrast, the U.S. stepping away from the organizations leaves China with an unobstructed path for assuming greater influence and weakens the remaining coalitions in which U.S. allies endeavor to push back.

Start with the World Health Organization. The United States should reconsider its decision to leave the WHO and focus on making changes within. Given the acute need for coordination on global health, it is critical to share vital information about COVID-19, including successful response options, and to work together on vaccine development and distribution. The United States and Europe should strategize on needed WHO reform, including countering the continued marginalization of Taiwan, and should work together for leverage to elevate these priorities.

Support human rights and reform the U.N. Human Rights Council (UNHRC). Continuing to lift up and defend human rights should be a top priority for both the U.S. and Europe. The two sides should carefully examine ongoing work at the UNHRC and develop detailed proposals for reform, in terms of both substance and strategy. What would it take for the United States to rejoin the UNHRC? How should both sides prioritize? Is there space and enough leverage to enact a positive agenda? Or is this mostly a defensive posture to prevent the CCP from further co-opting global human rights within the U.N.?

Lead on technology norms and standard setting. The United States and Europe should prioritize efforts to lead like-minded democracies on the creation of norms and standards for cyber, space, and other emerging technologies, particularly within U.N. bodies, while simultaneously pushing back on Beijing's efforts to control the agenda. These efforts should include widening the conversation to regularly include inputs from civil society and industry leaders on both sides of the Atlantic.

Prioritize U.N. leadership elections. The different outcomes of recent Food and Agriculture Organization (FAO) and World Intellectual Property Organization (WIPO) leadership elections illustrate the impact of organized and coordinated U.S. and European campaigns to jointly support preferred candidates. Future U.N. elections should be tracked well in advance to allow for broad campaigns and maximum coordination. In the run-up to the FAO election, a clumsily devised U.S. strategy and preferred candidate at odds with many in Europe led China to claim a diplomatic victory.¹³¹ By prioritizing a common position and coordinated campaign in advance of the WIPO election, however, the United States and Europe were successful in backing the Singaporean candidate over Beijing’s nominee.¹³²

INCREASE VISIBILITY ACROSS THE UNITED NATIONS SYSTEM

Invest in the future. The United States and Europe should prioritize development of personnel with both technical (U.N. or other multilateral) and China expertise. Both sides should work to identify ways to enhance career advancement for people trained in these areas and prioritize their placement in leadership positions across the U.N. The United States should look to create more fellowship opportunities for college students and early-career State Department officials that allow for acquisition of experience during rotations at the U.N.¹³³

In a perfect world, the United States and Europe, working in concert with other democratic partners, would unite to address China’s rising governance ambitions. Yet such cooperation is not without real challenges.

Develop personnel. The United States and Europe should separately pursue ways to strengthen and develop cadres of experienced personnel serving at key multilateral posts, in particular the U.N. For both sides, this endeavor could include the creation of specialized career tracks for multilateral experts and of incentives to attract both China hands and technical experts to serve in repeat tours. For the United States, it could include additional training for both junior and senior diplomats on aspects of multilateral work and negotiations; for Europe, it could include a broad effort to increase numbers and leadership positions.

DEEPEN SHARED KNOWLEDGE

Make Chinese Communist Party influence a standing topic of discussion in regular bilateral dialogues. The United States and Europe should hold regular conversations about China’s growing influence within international organizations as part of existing bilateral dialogues—not only with each other, but also with other like-minded allies and partners, such as Australia, Japan, the Republic of Korea, India, and Taiwan. A lot can be learned from Taiwan about how the CCP works to promote particular policies across international institutions.¹³⁴

Expand whole-of-government efforts. Whole-of-government approaches should be taken on both sides of the Atlantic in order to deepen knowledge and understanding of Beijing’s tactics, and to promote a coordinated response. Although it is important to maintain prominence of a senior point person to coordinate efforts, such as the State Department’s new envoy focused on China in the Bureau of International Affairs, a greater number of forward-deployed foreign affairs and defense personnel, including public affairs officials, should be part of the effort to develop and share information about local CCP activities, as well as be involved in delivering regular public and private talking points about such behavior.

Report annually on Beijing’s tactics to advance its objectives across the U.N. and on counterstrategies. The U.S. executive branch should compile an “annual report outlining all that China is doing to advance its reform agenda across the U.N. system, what the U.S. is doing to compete, and where the U.S. is making gains and facing losses.”¹³⁵ Such a compilation would be a useful resource for U.S. policy-makers as well as for its allies and partners. This effort could be strengthened if the EU or a national government in Europe were to take on a complementary initiative.

Develop and share expertise within institutions about CCP ideology and propaganda. The United States and Europe should lead efforts to push back on CCP narratives at the U.N. by developing a better understanding of Chinese discourse and preferred language. They should strengthen efforts to push back against Chinese norm setting and avoid falling for the CCP’s propaganda by developing a common and shared source of Chinese terms and their meanings, as well as alternative language that could be introduced in their place.¹³⁶

Involve the legislatures. The United States and Europe should explore furthering the role of their respective legislatures to draw attention to CCP attempts to expand

influence. New groups such as the IPAC hold promise for helping to align policies while also building domestic awareness and consensus.

REFRAME THE COMPETITION

Make stark the contrast between democracies and autocracies. The United States and Europe should do more to publicly highlight and demonstrate the difference between an international order led by a liberal democracy and one led by an illiberal authoritarian power. The current competition is a challenge for liberal democracies everywhere, including developing countries. The United States and Europe should expand opportunities to defend universal human rights and democracy, while calling into contrast and criticizing China's human rights violations, repressive system, and attempts to depart from accepted international norms.¹³⁷

Engage in more proactive public diplomacy. The United States and Europe should do more around the world to proactively talk up the advantages of the current democratic system and also do more to expose the facts around Beijing's activism. Neither the United States nor Europe can afford to remain static while the CCP works to advertise and claim credit for its actions. Public affairs officials should be empowered to more freely engage local communities on these broader narratives.

Promote an alternative for the developing world and do more to engage it. Without a positive global narrative—a clear U.S.-European vision for global prosperity and security, and policies to support that vision—Beijing's efforts to write its own narrative will continue to gain traction, because there is no alternative.¹³⁸ The United States and Europe should jointly work to develop and articulate such an alternative, and do more to engage the developing world. Recent U.S. legislation, such as the Asia Reassurance Initiative Act and the Build Act, is a step in this direction—clear support for projects to boost development and support democratic institutions in developing world.

Conclusion

The competition with China will shape the 21st century. And the stakes are high. The CCP brings a number of strengths to bear in this global contest: China is the world's second-largest economy, a leader in global technology, and a rising military power. It is formidable—but the United States and Europe, working together, can compete from a position of strength. So far, transatlantic cooperation on China has been slow to materialize. Tensions in the relationship, diverging risk assessments, and other barriers have precluded cooperation. But shared interest in forging a transatlantic approach is building. Establishing a shared agenda will not be easy; it will require steady efforts to build on areas of shared interests, and careful navigation of those issues where the partners diverge. The United States and Europe won't agree on everything, and they need not pursue identical approaches to addressing China. But to protect their economic competitiveness, advance democratic rules and norms, and set the norms and standards of the future, they must compete together. This report charts a course for the enhanced transatlantic cooperation needed to advance their shared objectives.

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