



**Atlantic Council**

ECONOMIC STATECRAFT INITIATIVE

# **Transatlantic Tools: Harmonizing US and EU Approaches to China**

**Noah Barkin and Agatha Kratz**

The **GeoEconomics Center** works at the nexus of economics, finance, and foreign policy with the goal of helping shape a better global economic future. The Center is organized around three pillars - Future of Capitalism, Future of Money, and the Economic Statecraft Initiative.

The **Economic Statecraft Initiative** examines the role that economics, finance, and regulation play in national security for the US and its partners, and how governments can collaborate the private sector.



**Atlantic Council**

ECONOMIC STATECRAFT INITIATIVE

# **Transatlantic Tools: Harmonizing US and EU Approaches to China**

**Noah Barkin and Agatha Kratz**

ISBN-13: 978-1-61977-202-1

*Cover image:* US/EU flags — State Department photo by Ron Przysucha/Public Domain; Chinese flag — Shutterstock

This report is written and published in accordance with the Atlantic Council Policy on Intellectual Independence. The authors are solely responsible for its analysis and recommendations. The Atlantic Council and its donors do not determine, nor do they necessarily endorse or advocate for, any of this report's conclusions.

November 2021

# Table of Contents

---

<b>1. Introduction</b>	<b>1</b>
<b>2. Five Years of Autonomous Policy Measures to Respond to China</b>	<b>2</b>
<b>3. Three Promising Policy Areas</b>	<b>4</b>
Area 1: Competition and Subsidies	4
Area 2: Forced Labor and Human Rights	6
Area 3: Responding to China’s Belt and Road Initiative	8
<b>Conclusion</b>	<b>11</b>
<b>About the Authors</b>	<b>12</b>

# 1. Introduction

**Close cooperation between the United States and Europe is essential if advanced economies are to develop effective responses to the array of challenges presented by China.** The transatlantic partners share democratic political systems, open market economies, and a commitment to many of the same values. Washington and Brussels also share concerns about recent developments in China. These include worries about the competitive distortions arising from the role of the state in China's economy, Beijing's use of advanced dual-use technologies to repress ethnic minorities and fuel its military, and the spread of authoritarian influence through the Belt and Road (BRI) and other foreign policy initiatives.

**Despite the shared concerns, there has been a lack of coordination and cooperation in recent years between the United States and the European Union (EU) (and its member states) when it comes to responding to China's policies and behaviors.** Under the Trump administration, tensions in the transatlantic relationship and differing views about how to address the array of challenges presented by China prevented a common agenda. Although talks took place between the administration and European capitals on issues like investment screening, export controls, and fifth-generation (5G) telecommunications technology, policies evolved mostly in parallel on either side of the Atlantic. This is more problematic than it may have been in decades past. The complexity and systemic nature of competition with China—encompassing trade, technology, security, human rights, climate, and more—makes transatlantic cooperation even more important today.

**Washington's focus on risks to US economic and national security contrasts with an emphasis in Brussels on ensuring reciprocity and leveling the economic playing field. This has yielded two distinct policy approaches with some overlap, but also many differences.** The EU is devising complex regulatory instruments to limit the activities of subsidized foreign firms in the EU market, ensure reciprocity in public tenders, and compel corporations to vet their supply chains for environmental harm and human-rights abuses. No similar measures are currently being pursued in Washington. The United States, by contrast, has developed an array of China-related tools that don't exist in Europe. The Foreign Investment Risk Review Modernization Act (FIRRMA) and Export Control Reform Act (ECRA) of 2018 give the US government far-reaching powers when it comes to investment screening and export

controls. Washington has also developed innovative approaches to counter the BRI, and introduced outward financial-investment bans in relation to Chinese firms with military links.

These distinct policy approaches are partly a reflection of the differences in how Washington and Brussels perceive the China challenge. Differences in legal systems and political cultures also make it difficult (or impossible) to introduce rules and regulations that have been implemented on one side of the Atlantic on the other side. **But, with the transatlantic relationship back on a better footing under the Biden administration, new structures for transatlantic dialogue being put in place, and a greater focus on the Indo-Pacific in both Washington and Brussels, there is now an opportunity for the United States and Europe to learn from each other and harmonize some of their China-related efforts.** The United States can learn from a rules-based, actor-agnostic EU approach that does not define every challenge as a threat to national security. The EU and its member states, by contrast, must learn to be nimbler, adapting their thinking and processes to the new geopolitical reality of systemic competition.

**Aligning approaches is important for several reasons.** It can close loopholes in defensive mechanisms, reduce the risk of subsidies on both sides of the Atlantic nullifying each other, and limit the burden on firms from complying with two sets of regulations. Alignment also reduces the risk of conflicts in the transatlantic relationship because of diverging, or even competing, approaches. Ultimately, a coordinated approach can lead to a more constructive relationship with China—one that is based on consensus and is less prone to reactive or excessive measures.

To facilitate the transatlantic discussion, this policy brief takes a granular look at the full range of autonomous policy tools that have been developed in the United States and Europe over the past half decade (Section 2). Among these tools, it identifies three policy areas where the cross-over potential is high (Section 3). These are policy areas that have not yet been given top priority under the EU-US Trade and Technology Council (TTC). For each, the paper describes EU and US approaches to date, presents the case for greater transatlantic coordination, outlines possible concrete next steps, maps out barriers to greater harmonization, and proposes avenues for overcoming them. It then offers concluding thoughts (Section 4).

## 2. Five Years of Autonomous Policy Measures to Respond to China

Over the past five years, the EU and the United States have developed a significant number of autonomous tools to manage—directly or indirectly—the challenges arising from China’s political and economic system (Table 1). These have spanned a wide array of policy areas, from competition and procurement policy to supply-chain resilience, investment screening, and export-control policy. The United States has adopted what it calls a “whole of government” approach to China challenges. The EU is developing an extensive arsenal of defensive measures, with the European Commission leading the way.

These tools have emerged from a shared realization that China’s economic and political model is no longer converging with that of liberal market economies, creating costly spillovers for US and European markets and firms, and chipping away at Western values.<sup>1</sup> Yet, most have been developed autonomously on either side of the Atlantic, with little consultation or coordination. They have, therefore, been shaped by distinct perceptions of the China challenge and different regulatory cultures.

In developing tools to respond to China, the United States has taken an expansive view of what constitutes a national and economic security threat, while the EU has taken a narrower and more defensive approach focused on leveling the economic playing field with China. This is because policies focused on national security are still primarily a member-state, rather than an EU, responsibility—although

EU capitals have, in recent years, shown a tendency to delegate more authority to Brussels (for example, in investment screening, 5G, and export-control policy).

Being a bloc of twenty-seven member states, each with its own legal regime, the EU has favored a multilateral, rules-based approach characterized by technocratic restraint. Brussels, for example, has taken care to devise tools that it deems compliant with the World Trade Organization (WTO). The United States, by contrast, has been able to move more swiftly and decisively when there was a policy consensus in Washington—as there has been, for the most part, on China policy over the past half decade. It has even shown a willingness, particularly under the Trump administration, to ignore multilateral rules when they were not seen as serving the national interest.

Lastly, the EU has gone out of its way to adopt a country-agnostic approach, devising instruments, rules, and guidelines that are applicable to all countries, even if many of these measures have been driven by concerns about China. The United States has been less shy about its target, devising and using tools that are more explicitly aimed at Beijing and the unique challenges that its economic system presents.

These approaches, while at times conflicting, are not irreconcilable. The next section points to various ways in which both sides can harmonize their approaches and cooperate on some of the most relevant China-related policy fields.

<sup>1</sup> *China Pathfinder: Annual Scorecard*, Atlantic Council, October 5, 2021, <https://www.atlanticcouncil.org/in-depth-research-reports/report/china-pathfinder-2021/>.

**Table 1: Main Autonomous EU and US Measures Taken to Tackle China-Related Challenges, 2016–2021**Includes both existing and proposed (\*) tools; *does not* include multilateral or plurilateral initiatives.

Policy Area	EU Measures	US Measures
Competition policy	Regulation on foreign subsidies distorting the internal market*	Annual listing of subsidies to Chinese firms (as part of the US Innovation and Competition Act, or USICA)*
Trade defense	Reform of EU's Trade Defence Instrument (TDI)	Sections 301 and 232 tariffs
Investment screening	Regulation establishing a framework for the screening of foreign direct investment into the European Union	Foreign Investment Risk Review Modernization Act (FIRRMA)
Export controls on emerging and foundational technologies	Revised dual-use export-control regulation	Export Control Reform Act (ECRA); increased use of the Entity List
Fair and reciprocal public procurement	International procurement instrument*; parts of the regulation on foreign subsidies*	N/A
Human rights and forced labor	Revised dual-use export-control regulation; Xinjiang-related sanctions; bans on products from forced labor*; Supply-chain due-diligence package*	Xinjiang and Hong Kong sanctions; Withhold Release Orders (WROs) on cotton, tomatoes, and silica-based products from Xinjiang; Entity List; Uyghur Forced Labor Prevention Act*
Supply-chain resilience	Industrial Strategy Update; European Chips Act*	Executive order (EO) on US supply chains; CHIPS for America Act*; National Critical Capabilities Defense Act*
Information and communications technology and services (ICTS) security	5G Toolbox; Network and Information Security 2 (NIS2) Directive*	EO on ICTS; Secure and Trusted Communications Network Act; Federal Communications Commission (FCC) “rip and replace” rules; Clean Network Initiative
Financial-investment restrictions	N/A	EO banning US investment in Chinese military-industrial complex companies (CMICs); Holding Foreign Firms Accountable Act; Public Company Account Oversight Board (PCAOB) rules on foreign audits; Securities and Exchange Commission (SEC) disclosure obligations for Chinese firms
Responding to China's Belt and Road Initiative	EU-Asia Connectivity Strategy/Global Gateway*; Indo-Pacific Strategy	Indo-Pacific Strategy; BUILD Act; Infrastructure Transaction and Assistance Network (ITAN); International Development Finance Corporation (DFC); US Export-Import Bank (EXIM) reform
Anti-coercion	Anti-coercion instrument*	Section 301 tariffs and Entity List

Source: Rhodium Group research.

### 3. Three Promising Policy Areas

A crucial question is whether there are lessons that the United States and EU can learn from each other after half a decade of regulatory free-lancing. Where could US and EU approaches be aligned? Surveying the tools developed in Washington and Brussels, this paper identifies those with the best transatlantic crossover potential. It focuses on tools that are not front-and-center priorities in the EU-US Trade and Technology Council—such as investment screening, export controls, supply chains, trade challenges, and artificial intelligence (AI)—although there is some degree of overlap with the comprehensive agenda being developed under the council.<sup>2</sup> This paper adopts a more selective approach, based on the view that alignment in a small number of areas can build trust, reduce the potential for tension, and generate momentum for bolder action. The authors believe three policy areas show particular promise, either because of their efficacy in dealing with China issues, the high cost of misaligned approaches (for businesses or taxpayers), or because they represent low-hanging fruit in the broader, and highly complex, transatlantic discussion on China.

#### Area 1: Competition and Subsidies

**EU approach:** The EU has been more aggressive than the United States in its use of competition policy tools—especially anti-subsidies tools—to respond to China challenges. Officials from the Directorate General (DG) for Trade and DG for Competition have spent the better part of the past two years devising a regulatory instrument to address spillovers from foreign subsidies in the EU market. The resulting tool—an instrument on foreign subsidies—has the potential to be groundbreaking when it comes to tackling distortions from subsidized Chinese firms (though the instrument is not China-specific) affecting EU firms and consumers. The instrument, which has been proposed by the European Commission but may take a year or more to become law, aims to address spillovers in three areas: direct investment, procurement, and business competition in the EU.

**US approach:** The United States has been comparatively less innovative over the past five years in responding to Chinese subsidies and other competitive distortions. The Trump administration imposed tariffs on a wide array of Chinese imports (under Sections 301 and 232) in an attempt to punish China for trade practices it considered unfair. But, these measures were aimed at addressing

national security risks and issues like forced technology transfer, discriminatory licensing, cyber espionage, and intellectual-property (IP) theft as much as subsidization. Drafts of the United States Innovation and Competition Act (USICA) propose that the United States produce and publish annually a list subsidies and discriminatory treatment favoring Chinese firms over other foreign ones, but do not foresee a standalone mechanism to tackle these practices. Similarly, the Meeting the China Challenge Act proposes creating reporting requirements for Chinese violations of US antitrust rules, but no clear course of action beyond that. In October, United States Trade Representative Katherine Tai made clear that she did not rule out using further trade tools to tackle China challenges—leaving the door open to an additional 301 investigation, this time into Chinese subsidies.

**The case for transatlantic alignment:** Competition policy and anti-subsidies are promising policy areas for several reasons. First, the significant negative effects of China's subsidies on European and US firms and consumers make it one of the most pressing issues for action regarding China. Trilateral efforts at the WTO have helped raise awareness, but the high barriers to reforming the organization and its limited purview (not covering subsidized investment, procurement, and other non-trade activities) make the development of autonomous instruments necessary. Second, market economies (starting with the United States and the EU) need a common definition of what is problematic in China's economic practices. This is important for communicating why EU and US efforts are not part of an anti-China crusade, but *legitimate* self-defense against harmful practices. Getting the problem right is also necessary to design tailored and narrower, yet effective, instruments—such as the EU's proposed instrument on foreign subsidies—that can preserve those areas of economic engagement with China that are not problematic, while weeding out those that pose risks. Third and finally, alignment is crucial because greater coordination and communication on subsidies will help raise international pressure on Beijing and its firms.

#### Avenues for action:

- In the short run, the EU and the United States could carry out a **joint stocktaking** of China's distortive economic practices and their negative global spillovers. This would include subsidies, as well as other forms

<sup>2</sup> For the full statement that came out of the EU-US TTC's first meeting in Pittsburgh, see: "EU-US Trade and Technology Council Inaugural Joint Statement," European Commission, September 29, 2021, [https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT\\_21\\_4951](https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT_21_4951).



U.S. President Joe Biden, European Council President Charles Michel and European Commission President Ursula von der Leyen attend the EU-US summit, in Brussels, Belgium June 15, 2021. REUTERS/Yves Herman. [RTXDAG3T]

of market-distorting state intervention in China's economy. The aim would be to establish a solid definitional foundation for future dialogues on China's unfair economic practices, and a clear understanding of common concerns and priorities. Here, the EU could share lessons learned from its preparatory work on the foreign-subsidies instrument.

- In the medium run, the United States might also consider the establishment of a **similar set of tools**. For example, to address the issue of subsidized Chinese investment, it could explore expanding the purview of the Committee on Foreign Investment in the United States (CFIUS). Though this would still require defining subsidies as a national and economic security threat, it would allow US lawmakers and the executive branch to integrate into the review mechanism a finer understanding of where these practices are most hurtful. The United States could also consider tackling subsidized procurement through revisions of the Federal Acquisition Regulation. However, because it lacks an equivalent to the EU's state-aid regime, the United States might not be able to tackle other subsidies affecting business competition in the

United States beyond subsidized investment and procurement. As is the case with the EU's foreign subsidies instrument, subsidized trade would remain the purview of the WTO.

**Barriers and remediation:** There are several barriers to greater transatlantic cooperation on the issue of subsidies and competitive distortions. First, the United States' national security-oriented approach to China's unfair economic practices has granted it flexibility and an ability to act fast. Developing new tools beyond the national security realm could mean slower and more burdensome regulatory action. The EU's proposal for a foreign-subsidies instrument has taken two years to come together, and it will now be in negotiation for another one at least. This means more than three years of missed cases and countermeasures—a costly delay for affected European industries. Washington might not be willing to wait that long to take action. Second, the United States does not have a state-aid regime that would allow it to tackle the issue through a single instrument. Instead, it would need to develop a more complex, two-pronged approach (to investment and procurement subsidies). Third, both sides are tinkering with the idea of ramping up subsidies to certain critical

sectors to reduce supply-chain vulnerabilities and increase home firms' competitiveness. The implementation of new anti-subsidies tools could, therefore, trigger cases aimed at the United States or the EU, in addition to China, with potential to reignite transatlantic tensions. However, the burying of the hatchet over Boeing/Airbus helps eliminate a major impediment. More generally, the fact that both sides are reevaluating their approaches to foreign subsidies, including recent US proposals for review of domestic and foreign subsidies, is creating momentum for a rethink of current tools.

## Area 2: Forced Labor and Human Rights

**EU approach:** The EU introduced a human-rights sanctions regime in 2020 and used it against a limited number of Chinese officials tied to Xinjiang in March 2021, but it was unable to build a consensus for similar measures on Hong Kong and has not imposed import bans on products made from forced labor. However, European Commission President Ursula von der Leyen announced in her State of the Union speech in mid-September that the EU plans to introduce some form of ban. There is no legal basis for import bans in the EU at the moment, and the European Commission could decide to pursue a different path, putting the onus for enforcement on companies, rather than custom officials, under the Supply China Due Diligence (SCDD) proposal it is due to unveil in late 2021. The SCDD is expected to oblige companies to vet their supply chains for environmental and security risks and human-rights abuses, including forced labor, and take remedial action if such abuses are identified. The EC has indicated that it is considering both a civil-liability regime and an administrative enforcement system that would include sanctions applied against companies at the national level by national authorities. On the export side, a revised dual-use export-control regime, which went into effect in 2021, allows for stricter EU-wide controls of cyber-surveillance technologies that authoritarian regimes could use to repress their populations (including items that are not included in multilateral regimes like the Wassenaar Arrangement).

**US approach:** Legislation that allows the US government to block the importation of goods made with forced labor has existed for decades. But, in recent years, Washington has turned to the tools at its disposal with increasing frequency, notably in response to reports of forced labor in Xinjiang and human-rights violations in Hong Kong. Under the Trump administration, the government introduced import bans on cotton and tomatoes from Xinjiang. The Biden administration has imposed sanctions on individuals tied to China's crackdown in Hong Kong and abuses in

Xinjiang. It has also banned certain raw silicon materials for solar panels from Xinjiang. The Uyghur Forced Labor Prevention Act, which is making its way through Congress, would expand import bans to cover any product produced in Xinjiang, unless it is proven to be free of forced labor. The US Customs and Border Protection (CBP) has enforced these bans by significantly increasing the number and scope of WROs that it issues.<sup>3</sup> This past summer, the CBP also solicited proposals for new technology tools, including DNA-based molecular tagging, that would help in the identification of blacklisted products. On the export side, the US government has sharply increased its use of the Entity List—a list of foreign entities that are subject to a special export-approval process—to prevent the sale of goods, such as surveillance technologies, to a series of Chinese firms that might be involved in the violation of human rights in places like Xinjiang and Hong Kong.

**The case for transatlantic alignment:** There is a growing political consensus in the United States and Europe that the import of goods produced by forced labor, and the export of goods that could facilitate violations of human rights, should be restricted. But, the United States and the EU have taken different enforcement paths that reflect, in part, their divergent legal regimes. Greater harmonization—based on common definitions, criteria, and data—is now warranted, for several reasons. It would reduce implementation costs for companies, which would benefit from a set of transparent, uniform ground rules when vetting their supply chains. A more joined-up approach would also reduce the scope for companies in one jurisdiction to profit from divergent regulations—for example, if EU firms were allowed to source low-price textile inputs from Xinjiang, putting US competitors at a disadvantage and potentially increasing transatlantic tensions. A common approach to the issue of forced labor and human-rights abuses in supply chains could also help establish a shared narrative around values that could be expanded to include other democratic partners. Finally, coordinated action would limit the potential for retaliatory statecraft from Beijing.

### Avenues for action:

- In the short run, the EU and the United States would benefit from **exchanging best practices for engaging with industry** on human-rights-related concerns—to make sure industry is involved and costs to business are considered, as well as to ensure more effective enforcement of EU and US measures.
- Both sides could also consider **introducing joint structures to enhance information and intelligence**

<sup>3</sup> A WRO forces an importer to demonstrate that affected goods have not been produced with forced labor, essentially putting the burden of proof on the company.



Police officers patrol in the old city in Kashgar, Xinjiang Uyghur Autonomous Region, China, May 4, 2021. Picture taken May 4, 2021. REUTERS/Thomas Peter

**sharing** for import- and export-relevant cases. Under the TTC, both sides have acknowledged for the first time the need for controls on dual-use technologies that could be misused and lead to human-rights violations. But, there is no forum for allied countries to identify and control such technologies. The EU and United States could initiate such a forum, as they did at the end of the Cold War to address concerns related to proliferation.

- To facilitate the enforcement of import bans, the two partners could **combine efforts to support the development of technologies, such as DNA-based molecular tagging, for the identification of goods made with forced labor**. Forced-labor regulations necessarily create compliance costs for firms (especially small and medium-sized enterprises), but more transparency, information sharing, and alignment in the scope of US and EU measures, can help reduce that burden and avoid a reduction of trade flows beyond what is necessary.
- Further down the line, the EU could also consider introducing a **limited version of the US Entity List for human-rights-related export controls**, enabling it to better target its controls and modulate licensing policy, including for goods exported by third countries using EU inputs. Such a list, which would require the approval of member states, could be confidential (to address concerns in some member states about public naming and shaming).
- Additionally, Von der Leyen's latest statements pave the way for the EU to consider the introduction of an **EU-wide border-control and import-ban system**, which could be inspired by the US WRO approach. This would level the playing field between US and EU business around goods clearly associated with forced-labor practices in Xinjiang and elsewhere.
- Lastly, the United States and EU should consider appointing a **small transatlantic team of full-time staff** for a fixed period of time that would be dedicated

to working through the statutory, regulatory, and practical hurdles to alignment on trade and human-rights-related issues.

**Barriers and remediation:** Most of the barriers to greater cooperation come from the European side of the Atlantic. There is currently no legal basis for imposing import bans across the EU, nor is EU-wide legislation on forced labor in place yet. Establishing this will take time. On export controls, member states remain in the driver’s seat, making it difficult for the EU to modulate licensing policy. Some member states are opposed to the idea of establishing an Entity List in the EU for three main reasons: they fear such a list would provide a false sense of security (front shops can be used to circumvent restrictions); they worry about the practical impediments to keeping such a list up to date; and they view such a list as akin to a political sanctions instrument that is at odds with what they view as the main goal of export controls, namely nonproliferation. In both the EU and United States, there has been pushback from companies that are concerned that aggressive human-rights-related rules would hurt businesses and saddle them with onerous compliance burdens. Still, the debate on both sides of the Atlantic is evolving. In the EU, legislation is being prepared that would address some of the current limitations, setting the stage for greater transatlantic alignment.

### Area 3: Responding to China’s Belt and Road Initiative

**US approach:** The United States has been active over the past five years developing a counter-BRI strategy. Its approach has taken two main forms. First, under the Trump administration, it launched a public campaign to discredit the BRI by denouncing China’s behavior in developing countries. Second, the United States developed a series of tools and enacted institutional reforms to beef up its offensive capabilities. While the former strategy proved counterproductive and has receded under President Biden, the latter has given the United States some effective instruments for responding to China’s BRI. Under the BUILD Act of 2018, the Overseas Private Investment Corporation (OPIC) was folded into the new International Development Finance Corporation (DFC), and its spending cap was more than doubled to \$60 billion. For the first time in history, the money would not necessarily have to go to US firms, and investment instead would be defined by the mission and goals at stake. Separately, a new China initiative at US EXIM was created, to offer support for US exporters facing competition from China (and other countries) in ten “transformational” sectors. Finally, the United States introduced small-scale, but critical, technical-assistance

measures—including the deployment of legal and technical teams to help countries negotiate or renegotiate infrastructure contracts (primarily those with China). This was formalized under the Infrastructure Transaction and Assistance Network (ITAN) in 2018.

**EU approach:** The EU’s reaction to China’s BRI has been more muted. In 2018, it published a document entitled “Connecting Europe and Asia: Building Blocks for an EU Strategy,” which laid out the bloc’s approach for better connecting the two continents. Since then, it has signed connectivity partnerships with Japan and India. But, in recent years, the EU has shied away from taking a geopolitical approach to connectivity, and has gone out of its way not to frame its strategy as a response to China’s BRI. The EU has struggled to develop its own counter-narrative, and to identify and fund high-profile projects in strategic sectors and geographies. Brussels and member states have also kept the door open to cooperation with China, including through the EU-China Connectivity Platform, the 16+1 (at least in its early years), and dedicated bilateral memoranda of understanding (MoUs) such as the one concluded in January 2018 between the French Development Agency (AFD) and China Development Bank (CDB). In response to criticism about EU’s lack of vision, EU Commission President Von der Leyen announced in September 2021 that EU’s connectivity strategy would be updated and given a new name, Global Gateway. A joint communication, laying out the details of the new initiative, is expected to be published in late 2021. In the longer run, the EU is also touting the idea of creating an export credit facility that would pool resources from various European financial institutions (such as the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB)) and national export-financing institutions into a more coordinated EU framework.<sup>4</sup> This effort, however, will take years.

**The case for transatlantic alignment:** There are several reasons why more transatlantic coordination is welcome for responding to China’s Belt and Road activities. First, Beijing’s initiative represents a significant challenge to both the United States and EU in terms of commercial access and strategic relationships with developing and emerging countries. Although China’s lending has receded in recent years, its firms have gained market share in third markets, often at the expense of US and EU competitors, thanks to low-cost financing and diplomatic support. China’s substantial concessional and commercial lending packages have also created goodwill in some developing countries, boosting Chinese influence and furthering China’s foreign policy goals. Second, global connectivity is an area in which success depends on cooperation, whether constructing a

<sup>4</sup> “Trade Policy Review: An Open, Sustainable and Assertive Trade Policy,” European Commission, February 18, 2021, [https://trade.ec.europa.eu/doclib/docs/2021/february/tradoc\\_159438.pdf](https://trade.ec.europa.eu/doclib/docs/2021/february/tradoc_159438.pdf).



A container is loaded on to the first Chinese container ship to depart after the inauguration of the China Pakistan Economic Corridor port in Gwadar, Pakistan November 13, 2016. REUTERS/Caren Firouz

compelling narrative that makes EU and US offers more competitive in third countries, establishing a geographical division of labor, or pooling resources. Third, it is an area with an abundance of low-hanging fruit (see below suggestions), and where even small coordinated steps can make a difference. Fourth, many of the previous barriers to cooperation (the Trump administration’s resistance to sustainability-related goals, its “America First” narrative, and its hostile stance toward Europe) have now been set aside.

#### **Avenues for action:**

- There are many steps that the United States and the EU can take, either together or in parallel, to harmonize their approaches. First is to create a **shared set of facts** and promote more transparency around China’s BRI. This could take the form of joint reports and data-gathering efforts. For balance and credibility, this work could be hosted at the Organisation for Economic Co-operation and Development (OECD), for example.
- Second would be to put US and EU initiatives (as well as those from other countries like Japan and Australia) under a **single multilateral label**. The Build Back Better World (B3W) initiative, proposed by Washington in June and endorsed by Group of Seven (G7) leaders, appears to be the best candidate—although details about the plan remain sparse, and it is unclear how the EU’s Global Gateway initiative would fit with it. In any case, a single name for the development efforts of open market democracies would help build traction. All committed funding could be accounted for under that label, offering a powerful counter-narrative to China’s own spending claims. While the label would effectively be a response to China’s BRI, it will be important not to frame it this way—instead offering a *positive* vision.
- Third, the EU, the United States, and their partners should continue their efforts to define **high-quality infrastructure standards** under the guise of the G7, Group of Twenty (G20), or the OECD—and in

all cases, building on the G20 Principles for Quality Infrastructure Investment (a set of voluntary, non-binding principles designed to reflect the G20's common aspiration for quality infrastructure investment). These standards will help create the conditions for crowding in crucial additional private investment as well.

- Fourth, the EU and the United States could explore **co-funding ITAN-like instruments**—i.e., technical assistance to help countries negotiate sustainable infrastructure contracts—directly or through multilateral financial institutions. This would amplify US efforts to provide legal and technical support to emerging countries, with early successes.
- Finally, the EU, the United States, and other partners could ramp up the **co-funding of high-profile projects**. US officials have been busy identifying infrastructure projects in Latin America, Africa, and Asia, with the aim of announcing a handful of investments in early 2022. European Commission President Ursula Von der Leyen suggested on a visit to the White House in November that these could include jointly funded projects under the B3W umbrella. Going forward, co-funded projects could include refinancing

for Chinese projects gone wrong and/or funding for critical infrastructure projects (data centers, 5G infrastructure, or undersea cables) with high stakes for the United States and EU.

**Barriers and remediation:** There are three main barriers to delivery under this policy area. First, the EU might be reluctant to join in an effort that is too clearly framed as countering China. Still, signals from the new administration—for example, a B3W statement with no explicit mention of China—can help bring EU and US approaches closer together. Second is the issue of funding. The United States lacks channels to extend strategically motivated financing, with US EXIM in particular still bound by tight commercial imperatives. The EU, for its part, is struggling to mobilize a dedicated budget for its connectivity efforts. Partners, including the United States, will be reluctant to mobilize funds for joint projects unless Brussels matches these commitments. The EU could leverage its lending arm, the EIB, to provide project finance. Third, and finally, a joint BRI response will run into the issue of competition between US and EU firms in third markets. New rules allow for US funding of projects in which US firms are not participating. But, both sides will need to make sure both EU and US firms see benefits.

## Conclusion

Successful transatlantic cooperation is vital for responding to the challenges posed by China. A new administration in the United States has provided a window to make this happen. The first TTC meeting on September 29, and the nascent EU-US China dialogue led by US Deputy Secretary of State Wendy Sherman and European External Action Service (EEAS) Secretary General Stefano Sannino, are signs that efforts to rekindle the transatlantic dialogue—including on China—are under way.

Still, major hurdles stand in the way of greater cooperation and a harmonization of approaches. These include different perspectives on the nature of the China challenge in the EU and the United States, different legal systems that make it hard to mirror or replicate the other side's policies, and a decision-making process in the EU based on unanimity, which can slow progress and lead to the watering down of policies. Clashing policy visions are also an issue: the United States has developed rapid-fire China-centric tools, frequently based on national security arguments, while the EU has moved more deliberately and taken care to make its tools actor agnostic and issue specific. There is also a divide in the sense of urgency with which the EU and United States are responding to the challenges posed by China. The AUKUS defense pact between the United States, Australia, and the United Kingdom, which infuriated France and unsettled other European countries, is evidence of this. This pact and the Biden administration's chaotic withdrawal from Afghanistan have both undermined trust between Brussels and Washington. Restoring that trust is a condition for the successful alignment of policies. As in a typical prisoner's dilemma, both sides need to

be sure that the other party will stick to commitments and resist pursuing benefits at the other's expense.

To this end, it is vital that the United States and EU do two things together. First, they must do a better job of understanding each other's concerns and priorities when it comes to China. Developing a common language, or narrative, with shared objectives will be crucial in order to maximize cooperation in the future. Second, both sides need to identify a small number of priority areas in which they can act together and build momentum around a common approach—a process that is happening already, to some extent, under the TTC. This analysis identifies competition and anti-subsidies instruments, tools to address forced labor and human-rights concerns, and strategies to respond to China's Belt and Road initiative as the three areas that show the most potential. In each of these areas, the two sides can learn from each other's actions of the past five years. In particular, the United States can learn from a rules-based and agnostic EU approach that takes care to avoid defining every challenge as a threat to national security. The EU, on other hand, must learn to be nimbler. If it takes years to put instruments in place, they may be obsolete by the time they become law. Brussels needs to adapt its thinking and processes to the new geopolitical reality of systemic competition. Devising non-country-specific tools is one thing; being able to point clearly to China as the source of major challenges for the EU, its firms, and its consumers is another. In both cases, a joined-up, balanced, fact-based approach that is not overly confrontational creates advantages for Europe and the United States. It also creates more leverage with China, and opens the door to a more constructive and plurilateral resolution of differences with Beijing.

## About the Authors

---



**Noah Barkin** is Managing Editor in the China practice at Rhodium Group and Senior Visiting Fellow in the Asia Program of the German Marshall Fund, for whom he writes the popular “Watching China in Europe” newsletter. Based in Berlin, his research focuses on Europe’s relationship with China, transatlantic China policy and emerging technologies. Previously, he worked as a bureau chief, regional editor and European correspondent for Reuters. His work has also appeared in The Atlantic, The New York Times, Foreign Policy and Politico. Noah holds a Bachelor’s degree from U.C. Berkeley and a Master’s degree from Columbia University’s School of International and Public Affairs.



**Agatha Kratz** is an Associate Director at Rhodium Group where she leads Rhodium’s research on EU-China relations, China’s commercial diplomacy, industrial policy and technology aspirations. Agatha is a non-resident Adjust Fellow at the Center for Strategic and International Studies’ Reconnecting Asia Project. Previously, Agatha worked as the Associate Policy Fellow at the European Council on Foreign Relations, Assistant Editor for Gavekal-Dragonomics’ China Economic Quarterly, and Junior Fellow at Asia Centre in Paris. Agatha holds a Ph.D. from King’s College London.



### CHAIRMAN

\*John F.W. Rogers

### EXECUTIVE CHAIRMAN EMERITUS

\*James L. Jones

### PRESIDENT AND CEO

\*Frederick Kempe

### EXECUTIVE VICE CHAIRS

\*Adrienne Arsht

\*Stephen J. Hadley

### VICE CHAIRS

\*Robert J. Abernethy

\*Richard W. Edelman

\*C. Boyden Gray

\*Alexander V. Mirtchev

\*John J. Studzinski

### TREASURER

\*George Lund

### DIRECTORS

Stéphane Abrial

Todd Achilles

\*Peter Ackerman

Timothy D. Adams

\*Michael Andersson

David D. Aufhauser

Barbara Barrett

Colleen Bell

Stephen Biegun

\*Rafic A. Bizri

\*Linden P. Blue

Adam Boehler

Philip M. Breedlove

Myron Brilliant

\*Esther Brimmer

R. Nicholas Burns

\*Richard R. Burt

Teresa Carlson

James E. Cartwright

John E. Chapoton

Ahmed Charai

Melanie Chen

Michael Chertoff

\*George Chopivsky

Wesley K. Clark

\*Helima Croft

Ralph D. Crosby, Jr.

\*Ankit N. Desai

Dario Deste

\*Paula J. Dobriansky

Joseph F. Dunford, Jr.

Thomas J. Egan, Jr.

Stuart E. Eizenstat

Thomas R. Eldridge

Mark T. Esper

\*Alan H. Fleischmann

Jendayi E. Frazer

Courtney Geduldig

Meg Gentle

Thomas H. Glocer

John B. Goodman

\*Sherri W. Goodman

Murathan Günal

Amir A. Handjani

Frank Haun

Michael V. Hayden

Tim Holt

\*Karl V. Hopkins

Andrew Hove

Mary L. Howell

Ian Ichnatowycz

Mark Isakowitz

Wolfgang F. Ischinger

Deborah Lee James

Joia M. Johnson

\*Maria Pica Karp

Andre Kelleners

Henry A. Kissinger

\*C. Jeffrey Knittel

Franklin D. Kramer

Laura Lane

Jan M. Lodal

Douglas Lute

Jane Holl Lute

William J. Lynn

Mark Machin

Mian M. Mansha

Marco Margheri

Michael Margolis

Chris Marlin

William Marron

Gerardo Mato

Timothy McBride

Erin McGrain

John M. McHugh

Eric D.K. Melby

\*Judith A. Miller

Dariusz Mioduski

\*Michael J. Morell

\*Richard Morningstar

Georgette Mosbacher

Dambisa F. Moyo

Virginia A. Mulberger

Mary Claire Murphy

Edward J. Newberry

Franco Nuschese

Joseph S. Nye

Ahmet M. Ören

Sally A. Painter

Ana I. Palacio

\*Kostas Pantazopoulos

Alan Pellegrini

David H. Petraeus

W. DeVier Pierson

Lisa Pollina

Daniel B. Poneman

\*Dina H. Powell McCormick

Ashraf Qazi

Robert Rangel

Thomas J. Ridge

Gary Rieschel

Lawrence Di Rita

Michael J. Rogers

Charles O. Rossotti

Harry Sachinis

C. Michael Scaparrotti

Ivan A. Schlager

Rajiv Shah

Gregg Sherrill

Ali Jehangir Siddiqui

Kris Singh

Walter Slocombe

Christopher Smith

Clifford M. Sobel

James G. Stavridis

Michael S. Steele

Richard J.A. Steele

Mary Streett

\*Frances M. Townsend

Clyde C. Tuggle

Melanne Verveer

Charles F. Wald

Michael F. Walsh

Ronald Weiser

Olin Wethington

Maciej Witucki

Neal S. Wolin

\*Jenny Wood

Guang Yang

Mary C. Yates

Dov S. Zakheim

### HONORARY DIRECTORS

James A. Baker, III

Ashton B. Carter

Robert M. Gates

James N. Mattis

Michael G. Mullen

Leon E. Panetta

William J. Perry

Condoleezza Rice

Horst Teltschik

William H. Webster

*\*Executive Committee  
Members*

*List as of November 15, 2021*



The Atlantic Council is a nonpartisan organization that promotes constructive US leadership and engagement in international affairs based on the central role of the Atlantic community in meeting today's global challenges.

© 2021 The Atlantic Council of the United States. All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means without permission in writing from the Atlantic Council, except in the case of brief quotations in news articles, critical articles, or reviews. Please direct inquiries to:

Atlantic Council

1030 15th Street, NW, 12th Floor, Washington, DC 20005

(202) 463-7226, [www.AtlanticCouncil.org](http://www.AtlanticCouncil.org)