

The European Union: Caught Between the United States and China

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The United States and the European Union (EU) are now both in agreement regarding China – long viewed benevolently – as a systemic rival in the international order. Despite this consensus, their interests differ with regard to Beijing, with the EU intending to maintain a degree of a partnership approach in its relations with China. However, the EU will have an impact in Indo-Pacific only if it develops long-term strategies there, backed up by tangible means.

politique étrangère

The European Union (EU) has long aspired to a stronger and more coherent foreign and security policy. With the Lisbon Treaty, it upgraded the position of High Representative for Foreign and Security Policy and created a new diplomatic service, the European External Action Service (EEAS) to help it achieve this objective. Although progress has been made in a number of areas, including in defense cooperation, the EU is still far from having a unified, coherent and effective external policy, while the departure of the United Kingdom has diminished its economic, political and military weight.

However, as the international environment has drastically changed, awareness of the need for Europe to be able to act more autonomously and decisively has risen substantially in recent years. The instability in the EU's neighborhood has been aggravated by Russia's aggressive policies, while the challenges resulting from China's rise became increasingly apparent. At the same time, American unilateralism under President Trump severely undermined confidence in the transatlantic alliance.

As a result of these developments, Europeans came to realize that they had to rely on their own strength to defend their values and interests, to become strategically autonomous and to think and act geopolitically – to use the language recently developed by European leaders. In this context, High Representative Josep Borrell talked about Europe having to learn the language of power. This is new territory for a union whose founding principles aim at overcoming power politics through the pooling of national sovereignty and the establishment of a rules-based system, and which has traditionally defined its external action as an extension of these principles. Of course, foreign and security policy essentially remain a national prerogative, while the geoeconomic policy toolbox – including trade, investment, competition policy and the single currency – are policy instruments at the European level. The challenge therefore continues to lie in the difficulty of achieving the necessary unity to effectively combine all policy instruments in a coherent EU framework.

President Biden started his term by declaring that “America is back”, signaling the return of the United States (US) to multilateralism and close cooperation with its allies to confront threats and deal with global challenges such as climate change, pandemics, and development more generally. This also implies the return of the US to global preeminence and leadership on the basis of shared democratic values and respect for universal human rights. Europeans generally welcomed President Biden’s election and his platform for renewed American engagement. However, they also wonder whether four years of Trump’s “America First” policy, which treated allies as foes rather than friends, were just an aberration of US policy which we can put behind us as we safely return to the *status quo ante*, or whether the deep polarization of the US political system will continue to carry the risk of a future withdrawal of America from the global system and potentially from the alliance system it built after World War 2.

Quite apart from this systemic risk, too much has changed in recent years – and already, in fact, under the Obama administration – to make a return to the *status quo ante* a reasonable assumption, first and foremost because Trump’s hardline and confrontational policy towards China is largely seen as a necessary change of course across the political spectrum in Washington. China’s rise and the challenge it presents to American global preeminence and its role in the Indo-Pacific will therefore continue to be the single most important issue for US foreign and defense policy, and this systemic competition with China will have direct repercussions for the US relationship with allies and partners both in Asia and in Europe. While Europeans welcome the strengthening of the transatlantic

alliance and closer coordination of policies proposed by President Biden, they are also aware of the need to look beyond the alliance to pursue their interests. These will not always coincide with those of the United States. This remains true even after the impressive show of unity at the G7, NATO and EU–US summits in June 2021.

China: The End of Illusions – How the US and EU Positions Evolved before Trump

Beijing, clearly concerned about President Biden’s strategy to strengthen America’s alliances against China, has warned the EU and its member states that they should stay out of power competition and instead focus on the economic and trade potential of EU–China relations, which would be harmed if the EU were to side with the US. While this position reflects China’s interest in neutralizing Europe in its power struggle with the US, for Europe there can be no equidistance between the two powers unless it abandons not only its values but also its claim to a global role, which cannot be strategically defined by a policy of not taking sides in a systemic rivalry. Europe’s interest therefore lies in creating a stronger but more equal alliance with the US, to increase its leverage against China, and to diversify its policy framework by strengthening its relations with like-minded partners and increasing its presence in the Indo-Pacific region.

This is not an entirely new EU approach but, since perceptions of China were still rather benign in Europe until fairly recently, it lacked focus and was not taken very seriously by the US, which did not yet feel threatened by China’s rise. For this reason, there was also no real follow-up to the joint declaration of Secretary of State Hillary Clinton and the EU’s High Representative for Foreign and Security Policy, Catherine Ashton in 2013 which aimed at closer cooperation on political, economic and security issues as well as the human rights situation in the Asia-Pacific region.

Still, the US had already started to react to China’s increasing weight; the Obama administration’s pivot to Asia was supposed to rebalance America’s foreign policy focus away from its wars in Iraq and Afghanistan, and was seen as an attempt at containment by China. At the same time the US stepped up its economic engagement with the Asia-Pacific region through the negotiations on a Trans-Pacific Partnership (TPP) with 11 countries in the Asia-Pacific region, which did not include China and was designed to set future rules in the area of trade and investment, rather than waiting for China to assert its increasing weight in the region. The EU, in the meantime, pursued its own trade policy in Asia, with

partnership and free-trade negotiations with the Republic of Korea, Japan, a number of the Association of Southeast Asian Nations (ASEAN) member states, and Australia and New Zealand.

It is true that it took Europe much longer than the United States to perceive as a threat China's more assertive policy and increasingly aggressive actions in the East and South China Seas. Opinions also differed when it came to China's initiative to create the Asian Infrastructure Investment Bank (AIIB) in 2015, which the Obama administration opposed, while most European countries decided to become members, and to the Belt and Road Initiative more generally, on which the EU was divided; it took quite some time to formulate a common position in the form of its Connectivity Strategy.

In the area of trade and investment, however, both the United States and the EU followed a similar approach, negotiating market access issues and investment agreements, and relying on policy dialogue at political level to create a more level playing field. This was still in line with the expectation after China joined the World Trade Organization (WTO) in 2001 that, through liberalizing and opening up its economy, it would become a responsible stakeholder and eventually more convergent with the system of political and economic governance in Western liberal democracies. Those illusions had already faded by the time Xi Jinping came to power, but it still took some time before the reality sank in that Beijing, despite its continued proclamations of adhering to the multilateral rules-based system and further opening-up, was in fact increasing the Communist Party of China's (CPC) control over the economy and all aspects of public life, and had no intention of ending its discriminatory and mercantilist practices while holding on to its claim of being a developing country of which reciprocity could not be demanded.

This led to increasing frustration on both sides of the Atlantic and to a gradual reassessment of the policy towards China in Brussels and European capitals, although member states were far from being united on how to deal with China. In addition, the weakness of the European approach lay in its lack of leverage. Some progress had been made to advance China's reform agenda through a myriad of sectoral dialogues, including on the environment and climate change, competition policy and intellectual property (IP) protection, but when it came to hardcore trade and investment issues, Beijing did not move. It knew that the EU was not ready, or rather could not rely on the required majority of member states, to adopt defensive measures against unfair trade practices. The EU side simply continued to repeat the mantra that it did not want to close its

market to Chinese trade and investment, but rather wanted China's market to become as open as its own. The main instrument to achieve this goal was the negotiations on a Comprehensive Agreement on Investment (CAI), which started in 2013.

The trade defense measures the EU had in place were linked to the fact that China was not recognized as a market economy, which had practical importance for anti-dumping cases. According to China's interpretation of its WTO accession protocol, it would automatically have to be recognized as a market economy after 15 years, i.e. at the end of 2016, by which time the EU would have to end what Beijing saw as unjustified discriminatory practices when assessing anti-dumping duties. In 2015 and 2016 China pressed hard for having this view accepted by the European Commission, while at the same time refusing to discuss the issue of Chinese overcapacities in the steel and aluminum sectors, which distorted markets and had become a sensitive issue in Europe and the US. China's strategy of forcing the Commission to grant it market economy status by putting pressure on member states became increasingly aggressive. This approach eventually backfired as it helped to unite rather than divide the EU. In the meantime, attitudes had also fundamentally shifted on the issue of Chinese investment, which increasingly targeted high-tech companies in Europe. The case of the German robotics manufacturer Kuka (2016), which was taken over by the Chinese company Midas, received particular attention and changed the debate altogether.

Is China a market economy?

These developments, together with China's refusal to accept the ruling of the Arbitration Court in The Hague in August 2016 – which rejected China's far-reaching territorial claims to virtually all of the South China Sea – and the deteriorating human rights situation led to a critical reassessment of EU–China relations in Europe. This had already been reflected in the EU's first China strategy in June 2016. It was followed by concrete measures to protect the EU's interests and put pressure on China to accept more reciprocity in market access, with new anti-dumping legislation and trade defense instruments, as well as the Commission's proposal for an investment screening mechanism, which entered into force in 2020. While this policy shift occurred before President Trump's election and was similar to the US approach, American policy towards China under the Trump administration changed fundamentally in 2018.

American Unilateralism – the Contest with China

The EU would have been ready to coordinate its approach towards China with the US to address issues of common concern, both bilaterally and

in the framework of WTO, to achieve better market access for foreign companies, and address gaps in the rulebook, in particular with regard to longstanding complaints about China's market-distorting practices, particularly through extensive subsidies to state-owned enterprises and forced technology transfer. The Trump administration, however, had no interest in coordinating policy with its allies whom it rather saw as economic competitors harming US interests. Instead, the US started imposing unilateral tariffs on Chinese exports in early 2018; these soon included tariffs on steel and aluminum that were justified on national security grounds and affected not only China but also EU member states. New rounds of US tariffs on China and counter-tariffs by China on US exports, as well as US restrictions in the technology sector, marked most of 2018 and 2019. There were intermittent negotiations on finding a way out of this trade war until finally the so-called Phase One agreement was reached in late 2019.

It contained a Chinese commitment to purchase \$200 billion more of US goods and services and addressed a number of US concerns related to investment barriers, IP protection and technology transfer, while leaving most of the tariffs in place. However, rather than moving the US-China relationship into calmer waters after this agreement, the Covid-19 pandemic aggravated tensions and the Trump administration stepped up its pressure on China with aggressive rhetoric and the declared objective to decouple the US economy from the Chinese one and slow down its progress in the IT and telecom sectors. While the Trump administration did not leave WTO, it effectively crippled its core dispute settlement mechanism by blocking the appointment of new members to its appellate body.

All this left the EU in a precarious position. It had to react to US sanctions and defend itself against the secondary effect of American sanctions on Iran, and it was on its own to pursue its agenda on China, which had started to appeal to the EU and its member states to join forces to defend the multilateral system against the unilateral approach of the US. But while Europeans were vehemently opposed to being targeted by unilateral US actions that were incompatible with WTO rules, and did not support the idea of decoupling from its second most important trading partner, there was also a growing body of opinion suggesting that, without Trump's confrontational and disruptive approach, China would simply continue to take advantage of the loopholes in the international rulebook and strictly limit its concessions to those it saw as being in its interests. European positions on China therefore also hardened as frustration around the absence of progress mounted in the business community and in political circles. This sentiment culminated in a highly critical

policy paper, the “Strategic Outlook on China”, which was presented to the European Council in March 2019¹ and which labeled China for the first time not only as a partner and a competitor but also as a strategic rival. This was a fundamental departure from the previous terminology, which had focused on the comprehensive strategic partnership advocated by China and the EU–China 2020 Strategic Agenda for Cooperation, agreed in 2013 when cooperation and engagement was the default mode to deal with Beijing. The Strategic Outlook went well beyond trade, investment and technology, addressing such issues as resisting economic pressure, promoting cybersecurity, countering disinformation, protecting universal values and dealing with defense and security interests.

This more robust approach paid off at the following EU–China summit in April 2019. China accepted the EU language not only on openness and transparency, non-discrimination, reciprocal market access, reform of WTO, but also on the universality of human rights and liberalization commitments which would enable decisive progress towards the Comprehensive Agreement on Investment on which negotiations had become stuck. This created some momentum due to a greater sense of European unity, clearer leadership by Germany and France (whose president had invited Chancellor Merkel and Commission President Juncker to Paris on the occasion of Xi Jinping’s state visit to France), and a willingness by China to signal some concessions in order to prevent a further hardening of EU positions during an intensifying trade war between Beijing and Washington.

**For the first time
China is labeled
as a “strategic rival”**

The Covid-19 pandemic slowed down the EU–China agenda while Beijing’s “mask diplomacy”, its crackdown on Hong Kong’s opposition and massive human rights violations in Xinjiang contributed to further harden increasingly negative perceptions of China’s leadership. The summit meeting between Xi Jinping and all 27 EU heads of state and government, which was supposed to take place in Leipzig during the German presidency of the EU Council in the second half of 2020, had to be postponed due to the pandemic; this also seemed to eliminate any possibility of a breakthrough in the negotiations on the comprehensive investment agreement during the German presidency of the Council. It was therefore rather a surprise when China decided to offer concessions that were substantial enough to finalize a deal after seven years of negotiations and led to the surprise announcement just before the end of 2020,

1. “EU-China Strategic Outlook: Commission and HR/VP contribution to the European Council”, 21-22 March 2019, available at: ec.europa.eu.

and only days before the inauguration of President Biden, that a political agreement had been reached. This was seen by critics as a diplomatic victory by Xi Jinping as it seemingly undermined the incoming US administration's wish to bring Europe into its alliance against China and signaled that negotiations with China rather than confrontation could achieve mutually beneficial results. As we will see, it was a short-lived victory.

Preoccupation with China Will Continue to be the Main Focus of US Foreign Policy

Throughout the Trump administration's term of office, relations between the US and the European Union remained tenuous, and its preference for pursuing its goals unilaterally rather than in cooperation with partners hardly changed. In spite of all the policy disagreements, the European Union was aware, however, that more coordination with the United States was needed to meet the challenges presented by China and to prevent lasting damage to the multilateral system, in particular the role of the WTO. High Representative Borrell's suggestion of establishing a dialogue between the European External Action Service (EEAS) and the State Department on China was accepted by Secretary of State Pompeo at the very end of his tenure and therefore only materialized under the present administration. Instead, the US focused on bilateral relations with EU member states, in particular in Central and Eastern Europe where it was quite successful in promoting its clean network initiative, designed to stem China's advance in information technology (IT) and telecom technology, and in particular to exclude Huawei from the rollout of the 5G network in Europe. This policy also contributed to undermine China's cooperation forum with 17 central and southeastern European countries (17+1), many of which had become frustrated with this lopsided arrangement and were increasingly worried by China's closer relationship with Russia.

The recent EU-US summit, following the G7 and the North Atlantic Treaty Organization (NATO) summits, confirmed that, with the Biden administration, a new and more sustainable transatlantic partnership seems possible, based on broad agreement on global issues such as climate change, global health, democracy and human rights as well as on the need to strengthen multilateral governance more generally and a commitment to cooperate more closely with allies and partners.

All this marks quite a spectacular departure from the previous four years. There is one policy area, however, which seems to show a large degree of continuity with the Trump administration's approach: the relationship with China – even if President Biden is looking for China's support on climate policy and does not exclude negotiations where he deems them useful and

in America's interest. But neither on trade and technology nor with regard to the security environment in the Indo-Pacific has the US perception of China as a threat to American interests and increasingly to American military preeminence changed. The renewed focus on democracy and human rights has even strengthened the ideological dimension of the big-power rivalry. This was apparent already at the first high-level encounter of foreign policy chiefs in Anchorage in March. The first virtual Quadrilateral Security Dialogue (Quad) summit meeting with Australia, Japan and India, as well as the visits to Washington by Japanese Prime Minister Suga and Korean President Moon Jae-in, who were President Biden's first foreign guests, underlined the administration's priority to defend America's preeminent position in the Indo-Pacific and, with the support of allies and partners, to push back at the growing Chinese influence.

What Will be Europe's Role in this Power Struggle?

The EU's shift towards a more critical and robust China policy in recent years suggests a fair degree of shared interests with the US and a similar assessment of the nature and objectives of the leadership in Beijing. The EU largely agrees with the US administration's judgment that the authoritarian regime in Beijing – which opposes democratic values and universal human rights, relies on unfair competition and subsidies to gain advantage and achieve technological leadership, propagates selective multilateralism to promote its interests, reacts with massive pressure to criticism and aggressively pursues its territorial claims – constitutes a challenge to liberal democracies and Europe's interests in the Asia-Pacific region.

When, as a response to the massive human rights violations against the Muslim Uyghur population in Xinjiang, the EU imposed sanctions in March 2021 on Chinese individuals and institutions under its new human rights instrument, it signaled that it would not shy away from confronting China and sees itself in a community of values with the US and transatlantic partners and allies.

Still, the US and the EU pursue a different overall approach to China. The United States currently sees the leadership in Beijing first and foremost as an adversary and rival, as a fierce competitor and only to a very limited degree as a partner for cooperation. High-level contacts between the Biden administration and the leadership in Beijing so far have shown little willingness in Washington to agree to a reset of relations and a return to the negotiating framework that was in place under the Obama administration.

While European positions on China have hardened and the language used in describing the challenges presented by China is very similar to

that used in Washington, the balance between rivalry and partnership is quite different. While systemic rivalry is now an integral part of the overall assessment, the EU still sees China above all as a partner. China's economic weight, its role in the international division of labor and its importance as an economic partner for Europe make the notion of decoupling unattractive and unrealistic in European eyes. In addition, cooperation with China is seen as essential to meet global challenges, such as climate change, pandemics, development and non-proliferation of weapons of mass destruction, but also to deal with regional security issues.

Finalizing negotiations on the Comprehensive Agreement on Investment (CAI) after seven years, shortly before President Biden's inauguration, was therefore less a snub to the incoming US administration, which had wished to be more fully consulted, than part of the EU's differentiated policy approach, which pursues negotiated deals where this is possible and in Europe's interest. At the same time, it became clear that, where economic interests clash with European values, the latter now carry substantially more weight than in the past. Ratification of the agreement anytime soon has been thrown into serious doubt after the excessive Chinese reaction to the European sanctions in connection with the human rights situation in Xinjiang. By targeting prominent members of the European Parliament, China made it effectively impossible for the Parliament to give its consent to the agreement – as a resolution passed with an overwhelming majority clearly showed. It should be noted that already at the time the deal was concluded, it was criticized not only because of its shortcomings by members of the European Parliament and nongovernmental organizations (NGOs), but also in a number of European capitals because of the haste with which it was pushed through by the German presidency, with the support of France.

While the EU can be expected to continue to engage in critical dialogue with China and will oppose a policy of outright confrontation, it will be keen to more closely coordinate on China with the Biden administration and like-minded allies and partners. Pursuing a policy of equidistance between Washington and Beijing would in reality amount to the EU being neutralized, abandoning its claim to become a geopolitical actor. It would lose its capacity to influence policy decisions in Washington and deprive it of any leverage with regard to Beijing. There are many areas where closer cooperation with Washington not only makes sense, but is clearly in Europe's interest, such as on human rights, sustainable development, cybersecurity, technology, climate change, global health, WTO reform, regional security,

**A policy
of equidistance
between Washington
and Beijing is
not possible**

freedom of navigation in the Indo-Pacific, and developing alternatives to China's Belt and Road Initiative.

Trade policy will be more difficult as protectionist sentiment remains strong in the United States; it is likely to continue to resort to unilateral measures and extraterritorial sanctions, which could affect the EU. There is no appetite in Washington to re-engage in comprehensive trade negotiations, be it in the Asia-Pacific or with its European partners. The challenge will be to diffuse bilateral trade frictions while working together on a global and sustainable recovery after the pandemic and jointly work on more resilient and responsible supply chains. The agreement reached on the longstanding Boeing–Airbus subsidies case is encouraging in this regard; there is also movement on global taxation and willingness on both sides to strengthen the overall partnership through the new Trade and Technology Council. Better transatlantic cooperation alone, however, will no longer be a viable substitute for strengthening the instruments to pursue and defend Europe's interests, reduce its vulnerabilities, and strengthen its international competitiveness.

Discovering the Indo-Pacific

Both the US and Europe now see relations with China increasingly in the context of developments in the Indo-Pacific, as the region is now defined rather than with the more neutral former expression Asia-Pacific region. Ever since the term “free and open Indo-Pacific” was coined by former Japanese Prime Minister Shinzo Abe, it carried the connotation of being directed against China, and, for the Biden administration, the so-called Quad format, bringing together the US, Japan, India and Australia, is the centerpiece of its containment strategy and broader alliance against China. Europe has more recently started to focus on the importance of the Indo-Pacific for geopolitical stability and its own substantial interests there. France, which considers itself as an Indo-Pacific power in view of its territories, maritime interests and presence in the region, was the first EU member state to develop its Indo-Pacific strategy, to be followed by Germany and the guidelines by the Netherlands.

The EU as a whole is in the process of developing its Indo-Pacific strategy, which was launched earlier this year. A first discussion by foreign ministers, in April, resulted in a mandate to High Representative Borrell to come forward with a communication to the Council by September. The starting point is the region's strategic and economic importance for the maintenance of an open, rules-based international order under increasing challenge. Ministers noted “with concern the current dynamics in the

Indo-Pacific that have given rise to intense geopolitical competition, adding to increasing tensions on trade and supply chains as well as in technological, political and security areas. The universality of human rights is also being challenged. These developments increasingly threaten the stability and security of the region and beyond, directly impacting on the EU's interests."² While these words seem to target China, the text is careful not to mention China directly, except in a brief reference to the CAI. It instead stresses the inclusive nature of the EU's policy approach, which does not exclude China or any other partner in the region.

On this basis the EU intends to reinforce its strategic focus, presence and actions in a region so as to contribute to regional stability, security and prosperity. It specifically refers to an open and fair environment for trade and investment, reciprocity, resilience, climate change and support for connectivity, while also stressing the need to secure free and open maritime supply routes based on international law, in particular the United Nations Convention on the Law of the Sea (UNCLOS).

These are broad objectives, but there is already quite some detail in specific policy areas and a reference to the already existing policy documents, which presumably also include the EU's China strategy. The question is how the China strategy can be linked in a more coherent way to the new emerging Indo-Pacific strategy. For the latter to be credible, this needs to be spelled out with greater clarity, especially as ministers already referred to the need to find common ground with partners "based on shared principles, values or mutual interest". When it comes to digital governance, the cyberspace and critical supply chains of 5G networks, the text no longer talks of all partners in the region, but of like-minded partners – which presumably does not include China. There are, of course, good arguments for a certain degree of ambiguity and for focusing on principles rather than directly confronting China, which a number of member states would not be comfortable with, and which would also not appeal to many of the EU's like-minded partners in the region.

The main problem with the Indo-Pacific strategy might be its broad scope and the EU's ambition to play a role in the shifting security environment of a region where the contest between the US and its allies with China is increasingly being militarized. While the EU has a strong stake in the security of sea lanes through which a substantial part of its trade

2. "Indo-Pacific: Council adopts conclusions on EU strategy for cooperation", April 19 2021, available at: www.consilium.europa.eu.

is carried out, it will have limited influence on developments in the South and East China Seas and, in particular, on a potential conflict in the Taiwan Strait. This does not mean that a military presence of France and Germany is meaningless or that Europe is powerless to contribute to stability in the Indo-Pacific, but its main strength lies in its economic, financial and technological power and its still considerable diplomatic and moral influence.

Rather than creating exaggerated expectations of its political and security role in the Indo-Pacific, the key test for the EU's credibility will therefore be a substantial long-term commitment to the region, underpinned by concrete measures and financial resources, in particular to strengthen connectivity, which was identified as a key objective of the EU in its earlier strategy paper on Eurasian connectivity and is now linked to the Build Back Better World initiative adopted at the G7 summit. The EU's last (virtual) summit meeting with Japan in May this year showed a large degree of convergence and underlined the increasing importance of this like-minded partnership which in the past was mostly limited to its economic dimension. The same applies to the Republic of Korea, Australia and New Zealand, but also to India with which long-stalled negotiations on a free-trade agreement were resumed at the last summit meeting in May, and to increasingly broader cooperation with ASEAN.

This is a much more complex environment than the concept of Europe having to make a binary choice between the US and China. Much will depend on the willingness of the US to accept that a Europe that is to a large degree aligned with the American vision of global order will still have different interests that it will not subordinate to those of its US ally. A more realistic concept of the transatlantic partnership when it comes to China and the Indo-Pacific will have the potential to strengthen the voice of liberal democracies if Europe can show unity, political will and sustained engagement in the region.



Key Words

European Union
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