

POLICY BRIEF

The Biden Administration: Trilateral and Transatlantic Economic Coordination on China

The advent of the Biden administration has resulted in an opening for a more expansive cooperation framework between the United States, the EU and Japan on strategic economic questions. Much of this is driven by China. The trilateral meetings between the three trade ministers represented one of the few structured open high-level efforts to come up with a common approach among the major economic powers to dealing with Chinese non-market practices. However, the potential agenda extends well beyond classic trade issues and any specifically China-directed measures. Between them, the United States, the EU and Japan represent the nucleus of any plurilateral initiatives in most economic and technological domains. The obstacles to building such initiatives preceded the Trump administration and will not be overcome by the weight of the China challenge alone. However, determining what might be possible in this regard is likely to be at the heart of relations between the three powers in the coming years, and to be one of the central issues not just for the US's China policy but also for its broader strategy.

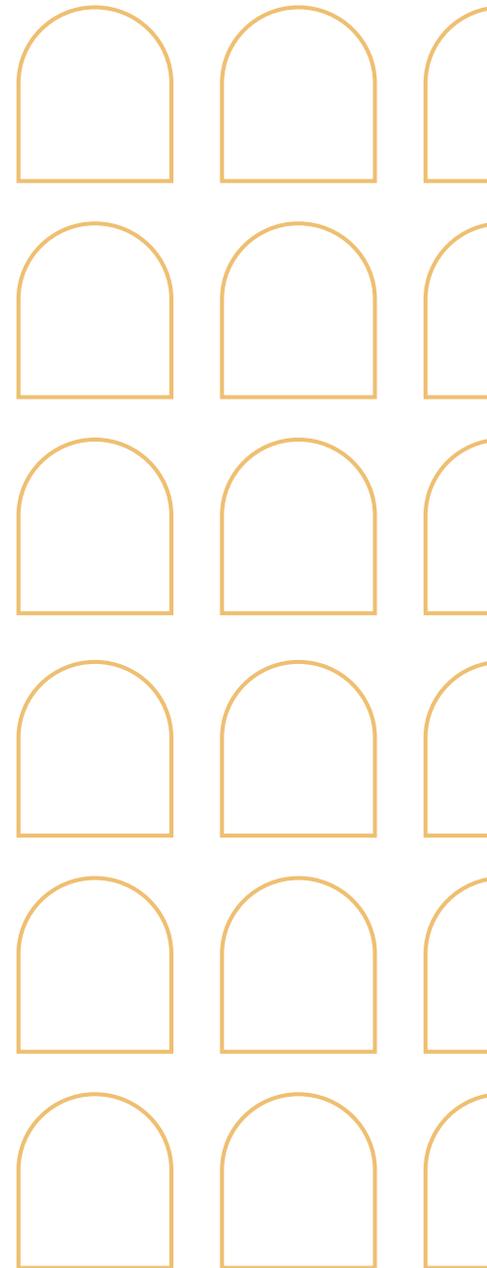
This paper evaluates three questions. What forms of strategic economic cooperation have already advanced in recent years? What new opportunities now exist? And what are the primary roadblocks to exploiting them?

Trilateral cooperation under Trump

During the Trump administration, the trilateral meetings of the US, EU and Japanese trade representatives were a rare highlight among an otherwise fraught set of interactions between the United States and its largest free-market economic partners. The

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opportunity to explore areas of alignment on strategy, the visibility and symbolism of the process, and concrete joint positions on issues such as subsidies and forced technology transfers were useful steps towards building a more concerted front among the major industrialised democracies. However, the process was limited by trade tensions between the parties themselves – particularly over the US use of section 232 and 301 tariffs – and some inherent differences over issues such as the use of state aid. There was also often more theatre to the meetings than a real spirit of cooperation. In practice, despite common objectives regarding China, the level of communication about negotiations on China between the United States and its partners was strikingly minimal.

Beyond the trilateral cooperation itself, there were a number of areas where the three sides made some progress towards a more coordinated approach. These included export controls, rules on investment screening, dealing with certain specific choke-point technologies and – although with variations and exceptions – security principles governing 5G. Mirroring the impetus behind major pieces of US legislation – the Foreign Investment Risk Review Modernization Act (FIRRMA) and the Export Control Reform Act (ECRA) of 2018 – the European side launched its new EU-wide investment screening framework, tightened or established national-level review processes and moved forward with reform of the EU's export control guidelines. On issues ranging from the adjustment of ownership stakes that require regulatory scrutiny to an expansion of the definition of 'core' technologies, the Europeans were in close contact with their US and Japanese counterparts and many of the adjustments in these areas were made in sequence or in parallel. Coordination was also expanded into several other areas, including the presence of Chinese researchers in sensitive sectors at universities, where European entry and exit reviews are often extremely limited, and related counter-intelligence efforts, where coordination has often lagged. There were also important bilateral breakthroughs that may serve as building blocks for a trilateral approach in the future, by far the most important of these being the EU-Japan FTA and the data adequacy agreement, which creates the world's largest area of safe data flows. The EU-Japan partnership on connectivity also set the stage for more significant work on infrastructure finance, although implementation of it has proceeded relatively slowly. Pairing this with the Japan-US and Japan-US-Australia initiatives, including the Blue Dot Network, will be one of the obvious next steps, and the US-EU exchanges on connectivity finance were relatively advanced even though they failed to translate into a formal agreement.

Aside from the trade trilateral coordination and the big-ticket items on the EU-Japan agenda, however, most of these areas of cooperation only moved forward at a working level and in self-contained silos, reducing the scope for more consolidated thinking on a strategy coordinated between the three parties. On the transatlantic side, although there were consultations on technology transfers to China and other sensitive areas, there was a fairly pervasive sense on the European side, on the part of both governments and companies, of being repeatedly and unpredictably subjected to decisions on which they did not have any meaningful say. Even in the areas of convergence, there was also a lack of any sense of being engaged in a process of co-devising and jointly thrashing out an overall framework that both sides could live with, let alone on China policy as a whole.

Recent years have seen wider changes in the collective understanding of Europe's role in Washington. The salience of Europe in US China policy has simply become far higher than it was during the last couple of decades of the US-China relationship. When US China policy was characterised by military hedging and economic integration, the countries that weighed most heavily were treaty allies and security partners in the Indo-Pacific. Since we have entered a phase where US-China competition is taking place in fields that include trade, finance, investment and technology, and where each of these areas – from the Belt and Road initiative to civil-military fusion – is understood to be intrinsically bound up with security issues too, Europe now assumes a very different significance. Its size as a market, its weight as a trading power, its importance as a hub for critical technologies and its capacity to mobilise finance for everything from infrastructure to development spending now put it among the most critical US partners. While areas of classic military cooperation, such as French and UK presence operations in the South China Sea, are certainly helpful, it is in this intersection of technology, economics, and security, rather than in the traditional military arena, where the European role in competition with China is believed by US policymakers to be most important.

The Biden shift

The Biden administration came into office with an avowedly different approach to China. There are some clear points of commonality with the Trump administration: a number of important policies had bipartisan support and will continue, while the new concept of the Indo-Pacific has now become embedded as part of a broader US strategy, reflecting a deep commitment by the US government and

Congress to prioritise the region as the dominant regional theatre. Most Democrats understood that the Trump administration's fundamental reappraisal of China policy was necessary, and the view that competition with China has to treat economics, technology and ideology as centrally as it does military balancing will stick. Some of the most important moves on export controls, investment restrictions and competing more effectively with the Belt and Road initiative were driven by Congress, and will persist too, although implementation in areas such as supply chain realignment and technology restrictions is likely to be underpinned by more serious economic modelling and by more thorough consultation processes both domestically and with partners.

However, the Biden team also has a number of points of critique of the Trump administration. The central one is that it was confrontational without competing effectively. It failed to mobilise allies behind the US strategy; it failed to address the domestic drivers of US competitiveness in a serious way; and it focused excessively on the counter-China dimensions of policy rather than on strengthening US capabilities. Even many of the goals that the administration ostensibly pursued – on structural change to the Chinese economy or democracy in Hong Kong – were undercut by the president's indifference to them, with the trade negotiations, for instance, being focused on mitigating the bilateral deficit and agreeing purchases of US products. Regional institutions in Asia and the multilateral and plurilateral space writ large were not taken seriously, from the East Asia Summit to the G7. There is also a perception that insufficient space was preserved in the relationship with China to be able to pursue limited areas of cooperation where necessary and manage conflict judiciously. By the end of the administration's term, the sense was that the US-China relationship had morphed into all-fronts confrontation without clear priorities as to where that made most sense. Some in the Biden team also saw an overestimation of how much the United States could change China's behaviour, and believed that US strategy – including in the economic realm – should focus on figuring out how to live with the fact that this was unlikely to happen.

In the early months of the administration, many of these points of critique have already turned into nascent policy, while the elements of continuity have also been clear. Early visits, calls, summits and language from the new administration have signalled a more ally-centred approach to China, a greater focus on stitching together allies in Europe and Asia, and more democratic values-based emphasis.

There have also been initial attempts to sketch out what it is likely to mean to focus more on the competition with China itself rather than specifically its 'stop-China' elements, most notably in the domestic industrial policy plans and support for the technology and innovation base included in legislation such as the United States Innovation and Competition Act of 2021. At the same time, many elements of the last administration's approach have remained in place for now, whether on export controls, technology restrictions or the phase one US-China trade deal itself. There are, nonetheless, a number of outstanding questions about what the 'ally-centred approach' is likely to amount to. For now, there is an initial sketch of what the consultations are likely to focus on, but there is vastly different scope in what might actually emerge from them.

Cooperation options, thick and thin

Although the issues at stake have a trilateral dimension – and indeed most of these issues will require the involvement of a wider coalition of countries too – the transatlantic question is still likely to have the most critical impact on how much collective weight can be put behind any common agenda. A number of the most vexatious issues on trade, data flows and other areas between Japan and the United States bilaterally and Japan and the EU bilaterally have largely been resolved. The outstanding issues are principally between the United States and the EU. Even as consultations get underway, there are different models emerging on how to deal with them.

One version is an extension and upgrading of previous exchanges with some of the major irritants removed. This would involve removing some of the most obvious impediments like the 232 tariffs and closing the gaps on matters such as the WTO appellate body, and then going through an issue list that would include: connectivity finance and capacity building for supply chains; shared negotiating strategies on Chinese trade and investment questions from subsidies and forced technology transfer to further market access; elevating and broadening coordination on Chinese access to emerging technologies; joint WTO cases, including a potential larger portmanteau case rather than sector-specific cases; regulatory and standards cooperation, particularly on emerging technologies where standards are still being devised; and better coordination of economic instruments, including the United States taking steps forward in areas where the EU has made leaps in the last couple of years, such as the use of competition policy and targeting Chinese subsidies in third countries.

If successful, this would represent a considerable advance from the situation of the last few years without getting into the most politically challenging issues. With enough initial senior-level impetus, progress can then be made in many of these areas among officials, and this would amount to a substantial coordination package on China in its own right, a strong foundation for wider coalition-based efforts and a complement to analogous efforts the United States and Japan are pursuing in the Indo-Pacific. However, it also has its limitations. Some of the issues that this 'low-hanging fruit' model leaves out are difficult precisely because they are important, and there is an argument that progress in one or two of these areas is now essential given the stakes involved in competition with China. These include: the principles underpinning the digital space, particularly with reference to data privacy, taxation and platform regulation (and data flows beyond the Schrems II fix); the wider approach to the global trading order beyond the WTO, including a revived plurilateral agenda of the advanced industrial democracies; joint approaches to supply chain security; reconciling positions on a Carbon Border Adjustment Mechanism (CBAM); deconfliction, cooperation and joint efforts at industrial policy; common principles on how to go about adjusting the openness of systems to non-like-minded actors; the overall offer to the developing world, from development finance and trade to technology partnerships; and a deeper framework for cooperation on green transition plans.

All these issues are centrally conditioned by China but the goals and agendas are evidently not solely China-centric. They are also areas that will require a more politically-driven framework, including a deeper involvement of Congress and European legislatures if there is going to be meaningful progress.

Political prospects

The basic contours of this 'thick and thin' version of China-conditioned cooperation have been evident since well before the November 2020 US election. Elements of both lists have been floated, from initial talks on the CBAM to proposals for a 'technology alliance' on the US side and a 'trade and technology council' on the EU side. The European Commission's December 2020 paper on transatlantic cooperation was in part an effort to sketch out the prospects for a thicker version of what this agenda might look like, even if the degree to which China looms over it was not prominently referenced. Equally, many of the issues that the two sides would need to fix are longstanding, from differenc-

es over the WTO appellate body to protection of European data, from diverging approaches to digital regulation to a differently balanced view of the military risks inherent in technology transfers. However, with views on Silicon Valley, antitrust policy and privacy, for instance, moving in directions that bring Europe and the United States closer together than during the Obama administration, the hope is that there might now be some further progress on these issues than had previously been possible. Nevertheless, there are additional factors that will continue to pose problems.

The first of these is mistrust on the European side about heading into longer-term arrangements with the United States that lack domestic consensus and may be overturned in a few years' time. The experience of the Trump administration was a sharp reminder that while the United States may not renege on its security commitments, when it comes to economics, trade and technology the tradition of alliance-friendly behaviour is less well-developed and at its worst may be as economically harmful as actions taken by adversaries. Hence, while joint China-related WTO cases may be easy to advance, joint industrial policy plans, say, may be trickier to contemplate. This dovetails with a strand of the 'strategic autonomy' agenda in Europe that sees, for instance, capacity building in sectors such as cloud computing as an essential strategic economic goal, rather than viewing 'western' firms as part of an integrated transatlantic space.

The second is divergences in thinking on China as an economic actor. The EU political nod on the comprehensive investment agreement with China in December 2020 was highly contentious, given that it seemingly represented the EU acquiescing, for reasons of commercial advantage, to a Chinese push to undercut the Biden administration's nascent coalition-building agenda. It also reflected deeper differences between the EU and the United States emerging in views on China-related economic strategy. While the Trump administration's shift in approach to technology-related ties with China was more radical, on classic trade issues it was often using its large-scale tariff escalation to pursue very traditional objectives of market access and reform, together with Trump's interest in bilateral purchases as a means of reducing the bilateral trade deficit. The Biden approach starts from a different premise that is more sceptical about the value of deepening commercial ties with China. This is partly a result of questions about whether US wider economic interests are as well aligned with those of US multinationals' interests in outsourcing and sales to the Chinese market as they were traditionally under-

stood to be, and partly because of far more explicit plans on China's part to weaponise dependency and securitise economic strategy. The result is a less China-centric economic policy, one that is no longer based primarily on the bilateral relationship or phase two trade deals, but rather on improving US and partner capabilities to compete. US plans for supply chain security, say, are not a side note in an overall economic strategy that is still primarily designed to induce changes on China's part or gain deeper access to the Chinese economic system, but rather part of a rebalancing effort that in a number of areas goes beyond that of the Trump administration.

The EU, by contrast, has maintained a view that the push for structural economic reform and market access, bilateral treaty negotiations, WTO disciplines and other traditional means of dealing with China remains a central part of its economic strategy. Even if this is supplemented by a range of other new tools, from the plans outlined in the subsidies white paper to the international procurement instrument, it represents a less 'systemic' adjustment to the shifting nature of the Chinese party-state. The EU Chamber of Commerce in China has characterised recent developments as "a redoubling of China's drive to build self-reliance," with European companies in China "reporting that this drive is different and more radical than in the past" as China moves faster to "create state-sponsored national champions to dominate a self-reliant ecosystem of indigenous technology integrated across its entire market." Xi has spoken about creating fully domestic supply chains for national security reasons, and made it a declared goal to increase foreign actors' reliance on Chinese supply by using the presence of international firms in China as a means of building leverage against other countries, stating that "we must tighten international production chains' dependence on China, forming a powerful counter-measure and deterrent capability against foreigners." If any of these developments are grounds for revisiting assumptions about the nature of Europe's economic relations with China, there is not yet any indication that it has translated seriously into European policy.

The two major summits in June 2021, the UK-hosted G7 and the EU-US summit, provided early markers of progress on all these fronts. The agreement to launch the 'Trade and Technology Council' that the EU had proposed, dealing with issues that range from semiconductor supply chains to AI standards, provides a potential underpinning for coordination that will be even more important than the recently launched EU-US dialogue on China itself. The

'truce' on the Airbus-Boeing dispute was a partial success in the process of unblocking legacy issues in the transatlantic relationship that will clear the way for a sharper focus on common concerns over China, even though the lifting of 232 tariffs was further deferred. The still-provisional plans for a new green infrastructure and connectivity scheme also started to lay out a positive-sum agenda for how to compete with China more effectively. Limitations were also apparent. The continued stress on the European side – particularly by Angela Merkel and Emmanuel Macron – on the need to maintain a differentiated approach continues to translate into a certain leaning back on some of these topics, even where the two sides agree. However, as the emphasis moves from top-level meetings to the working groups that will translate much of the agenda into practical effect, the more abstract debates on coalition-building will increasingly be replaced by highly specific issues in which these will not be the main considerations that intrude.

Conclusion

Much analysis of the challenges in building a coordinated transatlantic approach to China attributes the differences to Europe's supposedly excessive commercial motivations or concerns on the European side about new cold wars, 'bloc politics' and 'being forced to choose sides.' However, in practice much of the potential agenda outlined above is likely to be obstructed by traditional transatlantic divergences, the residue of the European experience of the Trump administration (and fears of a repeat of it) and differences in analyses of how best to pursue economic interests in the light of the trajectory of domestic developments on the Chinese side.

In one sense, there has already been considerable progress. The debates are now about the scope and depth of these areas of transatlantic, trilateral and coalition-based cooperation rather than whether the effort will move ahead at all. There are a number of positive-sum joint efforts in areas such as connectivity, and newfound convergences in areas such as standard-setting for new technologies that will have a critical impact on the competition with China agenda regardless of any deeper convergence. Beyond that, however, the question is whether the 'thin' version of this cooperation will be commensurate with the scale of the challenge that China now poses, and the consequences for all the advanced industrial democracies if the United States and Europe are unable to move forward on the most ambitious version of a joint agenda.

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