CEPA

Meeting China's Trade and Tech Challenge

How the US and Europe Can Come Together

ABOUT CEPA

The Center for European Policy Analysis (CEPA) is a nonprofit, nonpartisan, public policy institution headquartered in Washington, DC with hubs in London and Brussels, focused on strengthening the transatlantic alliance through cutting-edge research, analysis, and programs. CEPA provides innovative insight on trends affecting democracy, security, and defense to government officials and agencies; helps transatlantic businesses navigate changing strategic landscapes; and builds networks of future leaders versed in Atlanticism.

Cover photo: Chinese President Xi Jinping, also general secretary of the Communist Party of China Central Committee and chairman of the Central Military Commission, waves to people while attending a grand gathering that celebrates the 30th anniversary of the development and opening-up of Shanghai s Pudong in Shanghai, east China, Nov. 12, 2020. Xi delivered an important speech at the event. Credit: Photo by /Xinhua

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Introduction: Will the US and Europe Address the China Challenge?

By Daniel S. Hamilton

China's emergence as a tech and trade superpower threatens both the US and Europe. The allies are struggling to respond.

For more than two decades, China has worked to free itself from dependence on Western technology while making the West dependent on Chinese products. It protects priority industries and subsidizes them into becoming export juggernauts.

China engages in economic coercion. Its civil-military fusion strategy powers a significant buildup of its military, surveillance, and disruptive capabilities. Its aggressive territorial claims in the South and East China Seas, and its threats to Taiwan's integrity, present real risks of military conflict. Beijing and Moscow's declaration of a "no limits" strategic partnership, and China's active support for Russia's war on Ukraine, threaten US and European security, interests, and values.

Although the transatlantic partners are closer in their assessments of the China challenge today than they were four years ago, they approach Beijing from different strategic positions, with different tools, and with different senses of urgency. They have allowed their own bilateral squabbles to get in the way of robust transatlantic efforts to address Chinese aggression. These simmering problems could boil over in 2025.

This series, written between March of 2024 and January of 2025, analyzes the impact of China's rise on transatlantic ties and presents ideas about how to forge a constructive partnership to meet the China challenge. It is based on a yearlong series of CEPA-sponsored workshops of leading European and US experts that I chaired together with Lucinda Creighton under the Chatham House rule.

The basic question we addressed is whether Donald Trump's administration and Europe's leaders believe their own bilateral disputes are more or less important than the need to adopt joint or complementary approaches to China. Does the Trump administration believe it can and should fight predatory Chinese economic practices on its own, or forge a broad coalition of countries that could impose far greater costs on China than individual efforts? Are Europeans willing and able to bridge their own considerable differences over both China and Trump's America to help lead such a coalition?

Mr Donald TRUMP, President of the United States of America at the EU Leaders' meeting with the President of the USA Credit: EU Newsroom.

A joint approach to China should be guided by three Ds: deconflict, disentangle, and deny. The US and Europe should deconflict their own bilateral ties so they do not endanger transatlantic cooperation on China. They should disentangle their economies from uncomfortable dependence on China. And they should deny critical technologies, data, or goods to China that could advance Beijing's military capabilities and revisionist goals.

To deal with China, the transatlantic partners first need to deal with each other. A transatlantic accord could include European commitments to boost defense spending to 3% or more of gross domestic product by the end of the decade; bolster support for Ukraine; diversify from Russian energy; buy more US-produced liquified natural gas and other energy exports, agricultural products, and defense equipment; and refrain from levying unilateral digital services taxes on US firms. The US, in turn, could commit to maintain an active role in NATO, ensure Ukrainian security and sovereignty, refrain from imposing preemptive tariffs, and explore effective global tax reform.

The two parties should streamline the US-European Union (EU) Trade and Technology Council, now ensnared in an unwieldy tangle of many working parties, with three strong pillars. Pillar One would focus on mitigating US-EU disputes and advancing bilateral cooperation. It could include efforts to strike a quick trade deal to avoid a transatlantic trade war, finalize the Global Arrangement on Sustainable Steel and Aluminum, conclude critical minerals agreements, reduce trade costs by expanding conformity assessments, improve transatlantic risk assessments, and ensure that new EU laws such as the Digital Markets Act do not privilege Chinese and Russian tech over US firms. NATO allies should invoke Article 2 of the North Atlantic Treaty to promote defense-related innovation, and enhance screening of foreign investment in security-related infrastructure, companies, and technologies.

Pillar Two would address the China challenge: extending sanctions on Chinese actors for supporting Russia's war efforts; improving and expanding coordination on export controls; restricting data flows to China, Russia, and other countries of concern; sharing information on nonmarket policies affecting digital trade; and improving inbound and outbound investment screening.

Pillar Three would include areas in which the US and the EU could address China-related issues by working with like-minded partners. These include strengthening and expanding cooperation on critical minerals, energy security, and climate change; coordinating and enhancing efforts to counter Chinese theft of intellectual property; supporting the use of trusted vendors in digital technologies; reviving and expanding US-EU-Japanese talks on nonmarket economies; and promoting a "Free Road Initiative" to help allies develop more secure and resilient connectivity options.

It is an ambitious agenda. Any effort to forge joint or complementary US-European approaches to China could be a bridge too far. Yet the high stakes warrant exploring what a transatlantic deal on China might look like.

Defining the China Challenge

By Daniel S. Hamilton

Efforts to manipulate interdependence began in Beijing, not Washington or Brussels.

In 2015, the Chinese leadership launched an ambitious "Made in China 2025" program. It aims to reduce the nation's dependence on imported technology to 30% or less, freeing China from dependence on Western technology.

China's "protect" agenda contains two prongs.

The first aims to lessen China's reliance on Western technology while making the West more dependent on Chinese products and materials. Successes are visible: China's imports as a share of gross domestic product (GDP) have fallen to slightly more than 15% today,[1] compared with 30% in 2005, while the US and Europe rely on China for a host of products.[2]

The second prong seeks to protect the Chinese Communist Party from its own people. China's "Great Firewall" blocks domestic and foreign content that the government considers dangerous.[3]

As geopolitical tensions have mounted, Chinese authorities have reined in Western companies. They have imposed arbitrary fines, blacklists, counter-espionage law changes, data localization rules, and local content requirements, and conducted raids on businesses. Beijing has ramped up restrictions on exports of critical raw materials that other countries need for electric cars and renewable energy, optical fiber, semiconductors, and military technologies.

China's "promote" agenda includes massive government subsidies for homegrown industries as well as state-sponsored efforts to acquire foreign technologies — through joint ventures, strategic takeovers of foreign companies, or outright theft. China is estimated to spend up to 5% of its GDP on directed industrial support.[4] Beijing's "military-civil fusion strategy" builds synergies between its commercial and defense sectors.[5] Its current five-year plan aims to catch up and lead in critical technology. Huawei's emergence as a dominant fifth-generation telecommunications infrastructure supplier for many countries gives Beijing access to key parts of emerging communications networks, generating choke points of vulnerability.[6]

Beijing supports priority industries ranging from steel and aluminum to shipbuilding and solar panels. It showers companies with subsidies and protection from foreign competition, enabling them to develop fast and at scale, with production exceeding domestic demand, creating export juggernauts that squeeze out international competition. As Beijing faces sluggish growth at home, Western observers are

Photo: TV screen displaying news reporting of Chinese President Xi Jinping with his new team meet the media in Beijing at Quarry Bay department store. 23OCT22. Credit: South China Morning Post / Robert Ng.

concerned it is trying to replicate its tried-and-true pattern with emerging industries, notably “foundational” semiconductors, electric vehicles and battery technologies, wind power, and “persuasive” artificial intelligence technology. [7]

China’s “partner” agenda aims to secure access to foreign markets and critical resources, circumvent Western tariffs, offer an alternative to “Western-centric” norms and institutions, and position Beijing as champion of the non-Western world. China has spent a trillion dollars on its flagship Belt and Road Initiative to extend supply chains and logistics routes that advance Chinese standards, practices, digital flows, and political influence across Asia, Africa, and Latin America. China has worked hard to lock in its position as “refinery to the world” by partnering with producers of critical raw materials to feed their products into Chinese-owned refineries.[8]

Beijing also expands use of its currency, the renminbi, to challenge the dollar-dominated monetary system. It is establishing its own raw materials trading hubs and benchmarks priced in renminbi. It is utilizing such key financial technologies as blockchain, AI, cloud service, and quantum computing to create Sino-centric digital payments systems. It uses shell companies and bilateral arrangements with authoritarian countries like Russia and Iran to bypass Western sanctions.[9]

China's economic ascent is powering a significant military buildup. Its annual military budget tripled from 2008 to 2019 and by 2023 totaled $225 billion, second only to that of the United States.[10] Beijing is modernizing its forces, expanding its missile capabilities, strengthening its domestic defense industry, and investing in advanced technologies. China's maritime claims and related military activities threaten key principles of the global commons such as freedom of the seas, freedom of navigation, freedom of information, and the peaceful uses of space.

Beijing seeks technological dominance in command, control, communication systems, and computers (key for political and military decision-making); intelligence, surveillance, and reconnaissance (key for situational awareness); logistical and digital cyber systems (key for deployment of forces and military operations across all domains); and AI (key for long-term competitiveness in uncrewed systems).[11] Beijing is developing quantum technology with military applications in sensing, communications, and data processing. Universal fault-tolerant quantum computer capacities in Chinese hands could lead to hacks of Western encryption systems.

China has built the world's largest blue-water navy, consisting of 355 ships, with plans for 460 by 2030.[12] It has expanded its ability to project force to the Middle East, Africa, and the Indian Ocean, and it has declared itself a "near-Arctic" state.[13] It has established a strategic megaport in Peru and a military base in Djibouti, and is reportedly considering additional bases in Angola, Equatorial Guinea, Kenya, Namibia, the Seychelles, and Tanzania.[14]

China's aggressive territorial claims in the South and East China Seas, and its threats to the integrity of Taiwan, present a real risk of conflict in the Indo-Pacific, including direct confrontation between China and the US. An attack on Taiwan could cut critical sea lanes. US and European interests in the Indo-Pacific would be at risk. Opportunities would be created for Russia. US forces might not be available to adequately reinforce European allies against simultaneous Russian and Chinese military aggression.

Beijing and Moscow's declaration of a "no limits" strategic partnership, and China's active support for Russia's war on Ukraine, raises significant security concerns.[15] China is Moscow's principal partner in evading Western sanctions. NATO members are alarmed by Beijing and Moscow's joint naval exercises and their collaboration in cyber espionage, hybrid warfare, and arms proliferation. Russian-Sino defense industrial cooperation on sensitive technology, such as theater hypersonic weapons, counterspace capabilities, and submarine technology, presents significant challenges. Russian and Chinese intruders have infiltrated the classified networks of the Pentagon, allied militaries, and ministries of finance and foreign affairs.[16] They have implanted pre-positioned malware in nuclear plants, power grids, and water systems — lurking time bombs that they could activate at a time of their choosing.[17]

The allies must confront this dangerous China Challenge.

Coming Together or Falling Apart Over China?

By Daniel S. Hamilton

Americans generally agree on the China Challenge. Europeans do not.

The transatlantic partners are closer in their assessments of the China Challenge today than they were four years ago. When President Donald Trump attended his first NATO summit, China was nothing more than an afterthought. NATO leaders now agree that Beijing challenges "our interests, security and values" and "present[s] systemic challenges to the rules-based international order."[18]

Yet transatlantic efforts to meet the China Challenge have proven ineffective. Neither party is prepared to match the money Beijing is throwing behind its own agenda.[19] Neither has been willing or able to harness the full combined potential of their deeply integrated $8.7 trillion economy[20] to ensure they remain global rule-makers rather than become rule-takers.[21]

The transatlantic partners approach Beijing from different strategic positions, with different tools, and with different senses of urgency. Priorities are often mismatched. European countries remain wedded to global trade rules. US Democrats and Republicans alike are concerned that China has abused those rules and wants to weaken them.

The two sides have found it difficult to align their export controls and investment screening efforts. And while the United States has reduced its dependence on imports of Chinese manufactured goods over the past five years, the European Union (EU) has become more reliant on China. Key industrial sectors in countries like Germany, Spain, and Hungary are doubling down on China.

Although Washington and Brussels each address challenges coming from China, their own relations are beset by competitive impulses, underlying questions of trust, and mutual doubts about relative commitment and capacity. Americans think Europeans have brought clubs to a gunfight; Europeans think the Americans have brought guns to a fistfight.[22]

In the US, Republicans and Democrats differ little in their diagnoses of the China Challenge, even though they may diverge on the remedies. They agree that China is a world-class peer competitor to the US and its allies. Consensus exists that China's leaders seek to reshape the international system by reducing their reliance on the rest of the world and increasing others' reliance on China. Beijing aims to match and eventually exceed Western and Indo-Pacific powers' economic and technological

Photo: Paris, France. 6th May, 2024. Chinese President Xi Jinping shakes hands with European Commission President Ursula von der Leyen in Paris, France, May 6, 2024. Xi attended a China-France-EU trilateral meeting with French President Emmanuel Macron and European Commission President Ursula von der Leyen at Elysee Palace on Monday. Credit: Li Xueren/Xinhua/Alamy Live News.

preeminence; force American military power out of the Western Pacific; and create new, China-centered international institutions.

Although European countries do not always agree on how to deal with China, they have become increasingly hawkish. They are furious about China's support of Moscow's war economy and concerned about China's violations of human rights and its challenges to Taiwan, to other Asian countries, and to such fundamental principles as freedom of navigation and freedom of information.[23] Chinese investments in European infrastructure and technologies, including strategic ports, telecoms, power grids, and defense-related supply chains, jeopardize European security. Fears are growing that Beijing could blackmail Europe by exploiting China's control over critical materials. Chinese industrial overcapacity could generate a wave of cheap, state-subsidized imports that threaten EU domestic producers.[24]

The European Commission team that took office in early December 2024 has signaled a tough approach. Commission President Ursula von der Leyen believes Chinese leader Xi Jinping's "clear goal is a systemic change of the international

order with China at its center."[25] She has threatened the "full use of our trade defense instruments" if Beijing keeps flooding Europe with subsidized exports that could harm European companies.[26] The EU's new commissioner for trade and economic security, Maroš Šefčovič, says the EU must sharpen its tools to ensure it does not suffer from "China's state-driven economic model and industrial policy, as well as the overcapacities that are distorting global markets and supply chains."[27] The EU's new foreign policy chief, Kaja Kallas, has decried China's unfair competition, arguing that Beijing needs to "feel costs" over its support for Russia's war against Ukraine."[28]

The allies allow their own bilateral squabbles to get in the way of a robust transatlantic effort to meet the China Challenge. During the Biden administration, contentious bilateral disputes over aircraft subsidies and agricultural support schemes, market access, sanitary concerns, and government procurement were shelved but not resolved. Tensions fester over digital privacy, digital taxes, tech regulations, and competition laws. Negotiations have languished on a Global Arrangement on Sustainable Steel and Aluminum and a critical minerals agreement. The US is concerned about the EU's carbon border adjustment mechanism, corporate responsibility directive, and deforestation regulation. Europeans remain worried about the discriminatory provisions contained in the US Inflation Reduction Act.

These simmering problems could boil over in 2025. French President Emmanuel Macron argues that Europe should prepare for "a world of tariff wars."[29] President Trump has threatened blanket 10-20% tariffs on European countries and 60%+ tariffs on China.[30] That could cut 1% or more off EU gross domestic product (GDP).[31] Germany could lose 1.4% of its GDP by 2028 (more than $134 billion over the four-year period).[32]

A tariff war could escalate. President Trump's trade advisor Peter Navarro promotes "reciprocal tariffs," which means that Washington could mirror the tariff rates foreign countries impose on US exporters with equivalent duties on foreign importers.[33] For example, Washington could decide to match the 10% tariff rate Brussels imposes on US cars entering the EU by raising to 10% from the present 2.5% the US tariff on EU car exports to the United States.

A confrontation on digital services taxes could follow. The Trump administration and the Republican-majority Congress oppose the multilateral tax reform convention supported by the Biden administration and most countries around the world.[34] US rejection of the deal could prompt many countries, including Canada, the United Kingdom (UK), France, Italy, Spain, Turkey, and other European states, to impose digital service taxes that target US tech companies. The first Trump administration and the Biden administration threatened to retaliate with punitive tariffs, something a second Trump administration is also likely to do.

Photo: Container Ship of China Shipping Container Lines Berthed in The Port of Los Angeles. Credit: Peter Titmuss / Alamy Stock Photo.

Additional clashes loom. The Trump administration is likely to abandon the Biden administration's "small yard, high fence" policy of limiting specific technology transfers to China, in favor of broader restrictions.[35] As Washington constricts its own trade with China, it is likely to pressure Europe to do the same — otherwise, Europeans will be seen as taking advantage of their American ally by selling restricted goods and technologies to China and by allowing Chinese companies to evade US controls by selling their products in European markets. Europeans, in turn, are concerned that if China is blocked further from the North American market it will redirect cheap, heavily subsidized exports to Europe.[36]

Should the Trump administration impose tariffs, the EU is likely to target politically sensitive US exports, as it has in the past. Some European commentators recommend matching blanket US tariffs on European exporters with equivalent duties on US exporters.[37] Brussels could choose to deploy its new Anti-Coercion Instrument, which allows trade controls, customs duties, and other measures against companies or countries determined to be engaged in coercive behavior. So far, the EU has trained this so-called "bazooka" on China.[38] Should relations deteriorate, Brussels could turn its sights to Washington.[39]

Given that the US-EU commercial relationship is by far the largest in the world, such actions would be costly for both sides. Neither party has an interest in being caught in the escalatory spiral of a tit-for-tat trade war that would put a brake on European defense spending, hamper efforts to face down Russia over Ukraine, and destroy any chance that the two parties would align their approaches to the China Challenge.

The fundamental unanswered question is whether the Trump administration and European leaders believe their own bilateral disputes are more or less important than the need to adopt joint or complementary approaches to China. Does the Trump administration believe it can and should fight predatory Chinese economic practices on its own, or forge a broad coalition of countries that could impose far greater costs on China than individual efforts ever would? Are Europeans willing and able to bridge their own considerable differences over both China and Trump's America to help lead such a coalition, or do they prefer to stand apart?

Initial answers arrived in the early days of the Trump administration, particularly if the president makes good on his pledge to impose tariffs. A second test comes in March, when an important transatlantic tariff truce on European steel and aluminum will lapse. The Biden administration continued to suspend the tariffs. In return, the EU and the UK each agreed to postpone their respective retaliatory tariffs on over €4.8 billion of US imports, including 50% on bourbon whiskey, Harley-Davidson motorcycles, and motorboats.

The choice is clear. The allies should continue their truce. They should work to finalize a deal to impose common transatlantic tariffs on nonmarket (read: Chinese) producers of aluminum and steel. Or they could charge into a destructive conflict that will benefit China.

Recalibrating Connectivity to Compete Against China

By Ron Stoop and Tim Sweijs

China manipulates flows of information, goods, and critical materials. The West must respond.

During the 21st century, national security and prosperity depend on a society's ability to secure and control essential connectivity flows.[40] Such flows are both physical and digital. They ensure access to high added value goods such as advanced semiconductors and strategic raw materials.[41] They also include essential products of low value including food and energy.

As China weaponizes these flows of information, goods, and critical materials, the European Union (EU) and US administrations must, despite their differences, find common ground to protect sea lines of communication, explore alternative trade routes, and counter China's influence in the Global South.

Today, key trade flows are often disrupted. Houthi rebels and Somali pirates wreak havoc in the Red Sea, responsible for 13% of global seabound trade, halving the number of ships transiting through the area in 2023.[42] When the Ever Given cargo ship ran aground in the Suez Canal, it held up $9.6 billion in trade each day.[43]

Energy flows are particularly vulnerable. Europe cut imports of Russian gas through the Nord Stream pipeline in 2022. The Ukraine war slashed trade in food commodities. Wheat prices and food-related export restrictions soared.[44] The Indonesian 2022 palm oil ban and India's imposition of 2023 rice export duties triggered widespread fears of a global food crisis.[45]

Risks include those not just related to physical products, but also digital ones. The 2017 NotPetya cyber virus caused roughly $10 billion in losses, while Russia's SolarWinds attack penetrated the US Justice, State, Treasury, Energy, and Commerce Departments.[46] Malicious cyberattacks cost the world no less than $945 billion per annum, according to the Center for Strategic and International Studies.[47]

Although the West faces threats from multiple directions, China presents the biggest danger. Both the US and Europe are vulnerable to its coercive statecraft.[48] Over the last four decades, Beijing's Belt and Road Initiative has dominated infrastructure investments in Africa, the region with a disproportionate share of strategic mineral reserves. Beijing builds rail, roads, and ports in Tanzania. Chinese companies own the majority of Congolese copper and cobalt mines.

Photo: February 24, 2010 - Salar de Uyuni, Bolivia: A worker near a pool in the Salar de Uyuni salt fields, which are used to collect lithium from the evaporation of the brine just underneath the crust. This large desert salt holds over 50% of the world's lithium reserves. Credit: Idealink Photography / Alamy Stock Photo.

China is now repeating this strategy in South America. Many South American countries trade more with China than they do with the US. For example, Brazilian, Chilean, and Argentinian lithium is shipped in bulk to China to be processed on China's mainland.

China has already exploited this leverage. In 2023, Beijing imposed export restrictions on germanium, gallium, and graphite as well as on rare earth mineral processing technology, hurting a wide range of industries, including clean-energy and high-tech-defense-equipment firms in the US and Europe.[49]

To combat the Chinese threat, the US and EU need to secure and diversify their own supply chains. Unfortunately, they are currently failing to work together.

Although the EU's Global Gateway responds to the China-led Belt and Road, it shies away from directly challenging Chinese dominance.[50] Rather, it speaks of setting up high-capacity networks, the ethical use of technology, data protection cooperation, and fifth-generation (5G) infrastructure. The European Parliament resolution regarding EU-Asian connectivity, adopted in 2021, features similar multilateral priorities.[51] The European Commission, while imposing tariffs on Chinese electric

vehicles and pushing to remove Huawei and other Chinese vendors from its telecommunication networks, continues to avoid outright threats of decoupling in favor of "de-risking."[52]

The US, in contrast, explicitly works to maintain dominance in information technology. The 2020 "National Strategy to Secure 5G" aims to "enhance US leadership" in advanced wireless technologies.[53] Similarly, the Inflation Reduction Act and the 2022 export controls on semiconductors restrict flows deemed to be harmful for future US tech dominance in electric vehicles, batteries, solar panels, and wind turbines, as well as most advanced chipmaking technologies.[54]

US protectionism risks alienating the United States' closest partners. The US has imposed extraterritorial sanctions on technology exports from Europe to China and is subsidizing domestic electric vehicle production while discriminating against European cars.

In Europe, US policies cause resentment, encouraging tit-for-tat measures. The European Commission has created policy mechanisms aimed at bolstering Europe's ability to "deter and respond to economic coercion" not just from adversaries but also from allies.[55] These dynamics are counterproductive. The US and Europe must stop this negative spiral and find common ground. To that end, administrations on both side of the Atlantic need to pursue the following policy recommendations:

1. **Protect sea lines:** The US and Europe should strengthen existing initiatives to enhance maritime security, the Combined Maritime Forces, Operation Prosperity Guardian, and the European Maritime Awareness mission in the Strait of Hormuz.[56] Europe and the US should explore additional projects. A flagship project would be the India–Middle East–Europe Economic Corridor. The project aims to connect India and Europe while bypassing the Suez Canal and the long Cape route, instead crossing from Saudi Arabia through Jordan toward the Israeli port of Haifa. While the corridor would never be able to fully supplant the existing shipping routes, it would provide an avenue to secure and diversify the supply chain.

   For Europe, the completion of this overland corridor would increase connectivity with the Middle East and India, important future trading partners. For the US, it would strengthen links among some of its most important allies in the region (the EU, Saudi Arabia, and India) while reducing the burden on the US Navy to police important naval chokepoints.

2. **Counter China in the Global South:** The US and Europe should repel China's growing infrastructural dominance in Africa, Central Asia, and South America. Flagship projects, including the construction of the new Lobito Corridor train connection in Africa, are essential to securing the flow of critical minerals. The US Blue Dot Network and the EU's Global Gateway both emphasize

the quality aspect of infrastructure investments to help boost long-term development in Africa.[57]

Although transatlantic infrastructure initiatives are increasing, China's Belt and Road Initiative continues to dwarf Western lending commitments. The US and the EU should join forces under the umbrella of a "Free Road Initiative." Funding could be sourced from the World Bank and other international institutions.

3. **Salvage the US-EU Trade and Technology Council:** Although the transatlantic group has unlocked investment in digital infrastructure, it needs to be revamped to align standards. Standardization promotes interoperability of connectivity technologies, creates economies of scale, and reduces reliance on Chinese technologies. Examples include 5G and sixth-generation (6G) networks, early warning systems, and power cables.
4. **Deepen NATO cooperation:** The US and Europe should leverage NATO to strengthen cooperation on connectivity. The 21st century poses new challenges for collective security. NATO's Article 2 allows for economic cooperation to bolster transatlantic security.[58] Scope exists for cooperation on vital security technologies such as microchips, artificial intelligence, and 5G and 6G telephone networks. These technologies require high capital investment and advanced expertise. Aligning standards and goals will lower costs and increase effectiveness. The alliance should put more emphasis on an "economic NATO."[59]

Former NATO Secretary General Jens Stoltenberg emphasized the need to secure access to critical raw materials for the defense and semiconductor industries.[60] A transatlantic approach could also be taken to energy. The Nord Stream pipeline sabotage, followed by recent cutting of internet cables in the Baltic, raised new questions about the safety of the nascent undersea power cables in the North Sea and the Mediterranean. NATO's Joint Force Command already tracks important air and sea routes and monitors inward investment in NATO members.[61] Common standards and information sharing could help tackle cybercrime and information warfare.

As President Donald Trump moves back to the White House, the global situation is dire. A large-scale war rages on the European continent perpetrated by a revisionist and nuclear-armed Russia. In the Middle East, both allies, such as Israel, and adversaries, such as Iran, have spurred US demands to cease hostilities. Elsewhere, middle powers from Brazil and India to Indonesia have declined to follow US policies and priorities across different policy dossiers.[62]

China's assertiveness in the economic, political, and security realms has continued apace. In such a world, it is best to leverage your friendships to protect vital security interests. After all, the competition is with China, not with Europe.

Chips War 2025

By Christopher Cytera and Clara Riedenstein

Semiconductors power the digital economy. US and European industries are complementary — and need to join forces to beat China.

It is the new Great Game. During the 19th century, British and Russian empires contested Central and South Asia. The British wanted to keep Russia from threatening the jewel in its imperial crown, India. Today, the West wants to keep China from threatening its control over chips.

Virtually every electrical appliance requires a chip. Chips power the artificial intelligence revolution. They are so important, in fact, that China spends as much money each year on importing them as it does on importing oil.

Some positive examples of Western semiconductor collaboration exist. US companies such as Intel and GlobalFoundries have received European Union (EU) subsidies, while BAE Systems of the United Kingdom (UK) became the first company announced to receive funds under the US CHIPS and Science Act.

Yet no coherent framework ties together allied industries. Western nations may end up competing against each other rather than working together. The US and Europe must work with like-minded democratic Asian allies, principally Taiwan, South Korea, and Japan.

No single nation today can control the complex chip-making chain. Each region has its strengths and weaknesses. Asians manufacture. Americans design. Europeans build machines that enable production. China today is pouring billions into its chip-building ambitions, fueling economic and military modernization. Together, the West can beat China. Divided, it could fail.

Here are three recommendations to win:

- First, build joint defense. Align on tariffs and targeted bans for selected semiconductor-dependent industries such as drones, electric vehicles, and smartphones.
- Second, double down on the West's main strength: innovation. Instead of trying to outspend China on subsidies (a losing battle), focus on research and development, boosting start-ups and coordinating with like-minded allies South Korea, Japan, the UK, and Canada.
- Third, avoid handing out subsidies to a few big companies that are failing to keep up with the pace of change. Rather, direct help at new, nimble companies.

The West invented semiconductors. Bell Labs, Hewlett Packard, Bletchley Park, to name a few, created major breakthroughs.[63] Bell Labs invented the transistor, which made radios portable and consumer electronics affordable. Texas Instruments created the integrated circuit. Intel built the first processor.[64] Today, innovation continues to be the West's stronghold. US and UK companies Nvidia, Qualcomm, and Arm lead chip design.

But the West suffers from key weaknesses. One is supply chain vulnerabilities. The COVID-19 pandemic exposed strong dependencies on China, particularly in electronics manufacturing.[65] Chinese capacity, if unchecked, could hollow out legacy semiconductor production.

Another problem is cash flow. The semiconductor industry is specialized and costly.[66] The price tag on new semiconductor fabrication plants is projected to rise over 30% by 2026 to between $35 to $43 billion.[67]

China has exploited these Western weaknesses. Just as with green tech, it identifies key strategic markets and then overruns them by fair means or foul, leveraging a vast toolbox.[68] It hands out massive state subsidies to specific strategic projects, outspending the West. [69] It exploits cheap labor (or at times, forced labor), engages in extensive industrial espionage, and makes targeted acquisitions of Western start-ups.[70]

A good example concerns security cameras. Beijing-backed HiSilicon, the semiconductor subsidiary of Huawei, and surveillance camera firm Dahua and Hikvision. By 2015, 60% of global surveillance cameras contained a HiSilicon chip.[71] In 2019, the US sanctioned these companies on security grounds. Europe, however, did not.

Smartphone processors represent another example of the Chinese playbook. The UK semiconductor company Arm is the global leader in embedded processors.[72] About ninety-nine percent of the world's smartphones contain an Arm chip.[73] China is the company's largest market, contributing up to a quarter of its revenue.[74] As a condition for Arm to sell to China, Beijing took control of its Chinese operations with negligible compensation for Arm shareholders. It now holds exclusive rights to distributing Arm's intellectual property to smartphone makers within China.

In response to Chinese actions, both Europe and the US have developed their own offensive and defensive strategies. Yet their strategies both reinforce and conflict with each other.

When chip supply chains crumbled during the COVID-19 pandemic, the Joe Biden administration responded with the CHIPS and Science Act.[75] The goal was to refocus on domestic manufacturing capacity and double down on innovation. On the defensive side, the US imposed strict export controls to limit Chinese access

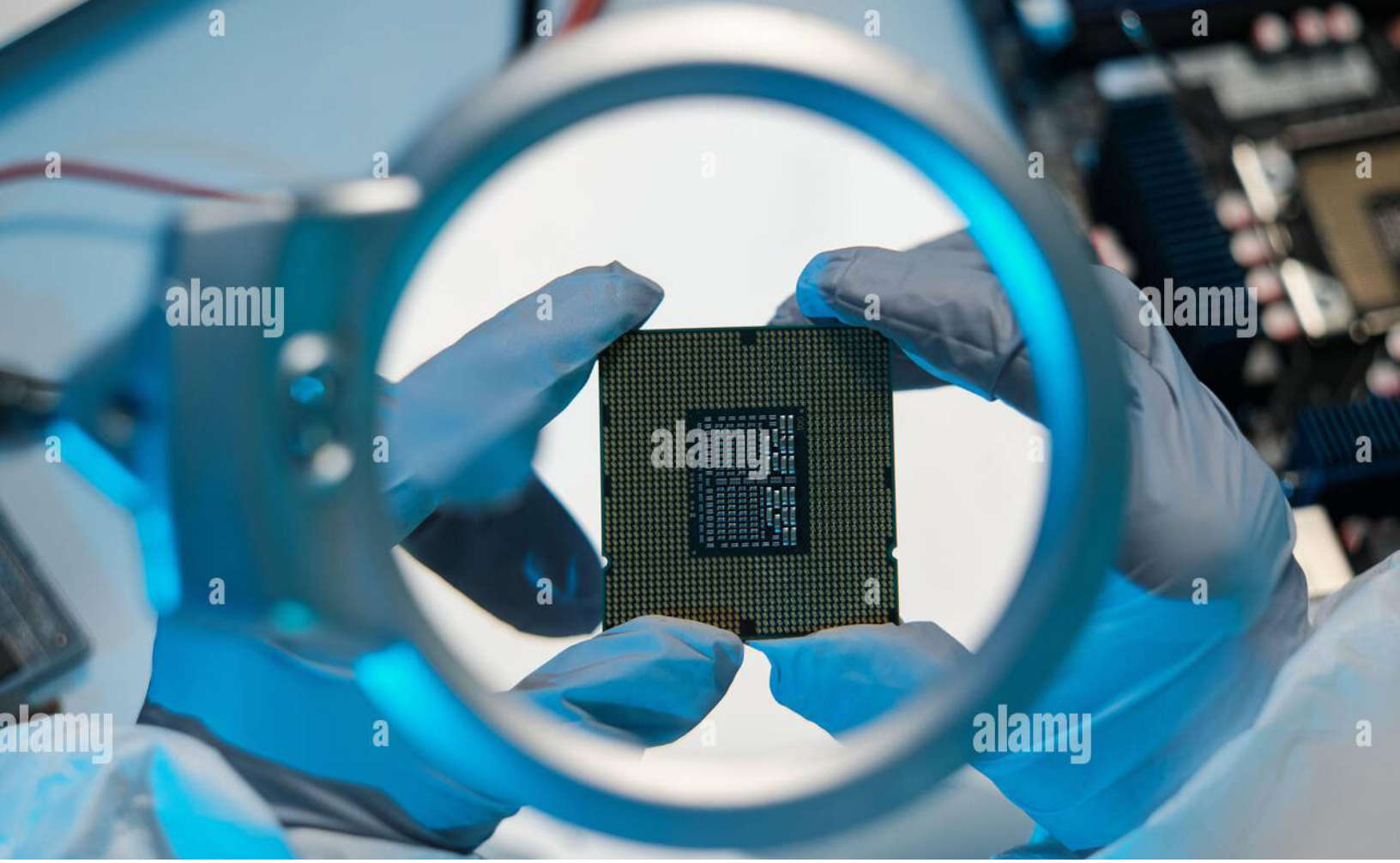

Photo: Magnifying glass and gloved hands of scientist holding microchip while sitting by workplace and repairing circuit board. Credit: Dmitriy Shironosov / Alamy Stock Photo.

to US-made chips. On offense, the CHIPS and Science Act called for a staggering $52.7 billion in subsidies, with the biggest chunks going to manufacturing ($39 billion) and research and development (R&D) ($13.2 billion).

Practical difficulties ensued. The first subsidy was delivered in only December 2023,[76] though President Biden rushed through an additional $53 billion in subsidies after the election.[77] A shortfall of 300,000 engineers and 90,000 skilled technicians is predicted by 2030.[78] The US needs more science, technology, engineering, and mathematics students to go into semiconductors.

Future policy looks unclear. On the campaign trail, President Trump argued that targeted tariffs would be more effective at boosting American manufacturing than subsidies.[79] A CHIPS and Science Act 2.0 looks unlikely. Once the R&D funding runs out, the industry will have to sustain itself.

The US deployed extensive export controls to limit China's access to cutting-edge US chips technology. These measures have proven difficult to enforce, especially on other allies. European companies fear losing a large, growing Chinese market.[80]

Export controls force Chinese companies to become more independent, which could be counterproductive. Increasingly, the latest Chinese smartphones[81] and electric vehicles use Chinese-made chips.[82]

The EU has responded with its own European Chips Act, which aims to achieve a 20% global market share in semiconductor production by 2030. While this goal is clear, the path to achieve it is not. Europe remains a net importer of semiconductors, consuming approximately 20% of global production but manufacturing only 9%.[83] The €43 billion ($44.3 billion) in promised public investments is unlikely to fundamentally change these market dynamics.

The EU, while slower than the US to deploy export controls, is becoming tougher. In July 2024, the European Commission launched an industry consultation to address China's expanded production of legacy chips.[84]

The EU and US must continue collaborating to ensure these subsidies remain mutually beneficial while avoiding a counterproductive subsidies war. Here are ideas for a joint strategy.

1. **Impose selective tariffs:** Rather than focusing on export controls, which have proven difficult to enforce, allies should shift to other options, particularly targeted tariffs on strategic products using Chinese chips.

   The drone market represents a good example totaling $4.4 billion in revenues for 2024.[85] It is of strategic importance, essential to agriculture, surveillance, mapping, and the military. While drones do not depend on any chip in particular, they require specific printed circuit boards (the structure surrounding a chip that allows it to function).[86] The EU and US could put a 100% tariff on any drone with a Chinese-assembled printed circuit board. Crucially, the tax should be on the final product, forcing companies to "design out" the Chinese components required for printed circuit board assembly.

   The US and EU should investigate "component tariffs" on products not based on where they are assembled, but on where their components are produced.[87] Current tariffs apply only to the location of final assembly, allowing many Chinese products to evade the fee because they are assembled in Vietnam and elsewhere.

2. **Bolster innovation:** It is a losing battle trying to outspend China. Rather, allies should strategically invest in their own start-ups and double down on their main strength: innovation. For drones, the EU should incentivize drone start-ups. American and European institutions need to collaborate — Belgium's Imec, France's CEA-Leti, and the Albany NanoTech Complex already work together and their ties should be strengthened.[88]

The UK must be brought back into the fold. Pre-Brexit, the UK attracted chip investment with lower taxes than most of the EU, and employed many EU nationals in its start-ups. Brexit severed this partnership. It is only slowly being repaired. In 2023, the UK returned to the EU's Horizon Europe program, which is providing over €100 billion ($103 billion) in research spending from 2021 through 2027.[89]

Other democracies should be embraced. Canada, for example, has birthed 100 home-grown semiconductor companies.[90] Taiwan enjoys nearly 50% market share in manufacturing. South Korea's Samsung and Hynix are global leaders in memory chips, rivaled only by US company Micron. Japan is the only country that touches every link of the supply chain from design down to packaging.

3. **Diversify:** Both Europe and the US should diversify the companies that receive incentives. It will not help either of them to prop up "lame ducks," starting with Intel. Although the US champion is struggling, trying to be both a designer and manufacturer of chips, Washington is pumping more cash because of its "strategic importance."[91]

   The United States and Europe need a Plan B, even if it means counting on Asian companies. Taiwan's TSMC plant is building plants in Arizona and Germany.

It takes years to design and manufacture a new semiconductor. Both the West and China are intent on winning the global chips war. It is too early to say who will win. Success or failure will do much to determine the future of the 21st century.

A Post-Mortem for Transatlantic Clean Tech

By Niclas Poitiers and Pauline Weil

For the past four years, Europe and the US agreed on green goals while disagreeing on tactics. President Trump's re-election torpedoes this tentative rapprochement.

Under the Joe Biden administration, Europe and the US shared the common aim of fighting climate change and de-risking from China. President Biden rejoined the Paris climate agreement. He wielded tariffs and subsidies to sell climate policies to American voters as rebuilding US industry. Europe pursued an ambitious green policy and became wary of Beijing's attempt to dominate green industries.

Admittedly, the allies embraced different approaches. Europe generally put more emphasis on sticks, through regulations and carbon pricing. Americans offered carrots, with tax breaks and incentives. These differences limited transatlantic coordination.

But Donald Trump's victory darkens the outlook for even this limited rapprochement. Upon moving into the White House, President Trump repealed regulations aimed at promoting electric vehicles, opened vast areas of public land and federal waters for oil drilling and mining, and ordered the withdrawal of the US from the Paris Agreement.[92]

Climate change will cease to be a shared positive-sum transatlantic objective and become a zero-sum competitiveness game. Even if a transatlantic trade war is avoided, additional US tariffs on China threaten to divert Chinese exports, swamping Europe.

Going forward, the objective will be to manage divergence. The Trump administration will object to Europe's Carbon Border Adjustment Mechanism (CBAM). Europe will resist US infractions of World Trade Organization (WTO) rules.

As the allies squabble, China could end up the winner. Beijing has won remarkable success in building successful clean tech industries. China dominates in the markets not only for solar panels and batteries but also the materials needed to produce them, including lithium, cobalt, and polysilicon.

The Biden Strategy

The Biden administration aimed to decarbonize the US economy and build a domestic clean tech manufacturing base. Climate policy is a partisan issue in the US, explaining the emphasis on neutering it politically.[93]

Photo: YANCHENG, CHINA - AMY 3, 2024 - Wind turbines spin against the wind at a vast coastal flat in Dafeng district of Yancheng City, Jiangsu province, China. Credit: Cynthia Lee / Alamy Stock Photo

President Biden's headline initiative, the Inflation Reduction Act (IRA), provides subsidies for the production and deployment of clean tech.[94] The IRA stimulates demand by offering tax rebates on solar panels, wind turbines, and electric vehicles. It supports supply through subsidies to produce batteries, electric vehicles, wind turbines, and solar panels. Since the IRA subsidies are uncapped, contingent on take-up, the final cost is unknown, but could be between $570 billion to $1.2 trillion.[95]

The huge sums have generated transatlantic trade tension.[96] IRA subsidies not only exclude producers that use non-American battery components, but also require the use of US inputs. WTO rules prohibit such local content requirements, which discriminate not just against Chinese but also against European producers.[97]

President Biden proved a tariff warrior.[98] He quadrupled tariffs on Chinese electric vehicles to 100%, tripled them on steel and aluminum, and doubled them on chips and solar cells. It remains unclear whether IRA subsidies will compensate for the crackdown on Chinese green tech that has increased the cost and length of the US energy transition. From a political standpoint, stark price increases hurt consumers, exacerbating existing discontent with high rates of inflation.

A key question is whether the green subsidies will survive the Trump era. Some 78% of IRA-related investments are made in Republican-held congressional districts. Whether this bolstered support for IRA subsidies remains to be seen.[99] About 30% of Republicans believe the IRA has had a negative impact on them, according to an October poll.[100] The IRA targets affluent consumers and businesses and lacks popular support from those most hurt by the cost-of-living crisis.[101]

The Biden administration's approach of fighting fire with fire — embracing Chinese-inspired industrial policies — created anxiety that Europe might have to navigate a global subsidy race, which it could not participate in given legal and fiscal constraints. US subsidies and tariffs violated WTO rules, undermining an international institution core to European values. President Trump looks set to double down on many of these policies, making the United States an unreliable partner, and even an economic threat, to Europe.

The European Union's Strategy

Carbon pricing represents the preeminent European policy tool for the green transition. Europe charges a fee for carbon dioxide (CO_2) emissions. Currently, the price stands around $76 per ton of CO_2 and covers emissions from sectors such as electricity and heat generation, carbon-intensive industries, and transport (maritime and aviation).[102] Starting in 2027, a new carbon pricing system will be introduced to cover buildings, road transport, and other industries.[103] For a few polluting and politically sensitive sectors such as agriculture, discussions remain ongoing.

Brussels has complemented carbon pricing with subsidy programs to support European producers in some green or strategic industries.[104] European subsidies also support energy-efficient home renovations and encourage the use of electric vehicles. But European industrial subsidies remain much smaller than the US' IRA subsidies, confirming the contrast between President Biden's IRA and Europe's emphasis on carbon pricing.

Europe's trade policy balances respect for WTO rules and ensuring fair market access. The European CBAM sets a price for imports of certain goods for which European production is part of the carbon pricing system. It aims to limit unfair competition from non-European producers free of a carbon price and avoid "carbon leakage," meaning businesses moving abroad and exporting "carbon-tax-free" to Europe. Many governments, including the US, see CBAM as a form of green protectionism.

To respect WTO rules, the European Union (EU) backed away from punitive tariffs singling out China. In October 2024, the European Commission imposed duties ranging from 18% to 45% on Chinese electric vehicles. In contrast to the much

higher 100% US tariffs, these duties counter market-distorting subsides rather than wielding a blunt instrument designed to stop a geopolitical rival.

After the IRA passed, European policymakers engaged in soul searching, about their own industrial subsidies. Without competing subsidies, Europeans feared that the IRA could divert investments across the Atlantic. Critics feared subsidies would be a waste of money and undermine Europe's single market.[105] National European governments have different abilities to support their domestic industries, raising fears that large countries such as Germany will outspend smaller neighbors.

Despite misgivings, Europe moved forward, allowing limited industrial subsidies to promote European clean tech production.

What Can Be Salvaged?

During the past four years, transatlantic tensions over China and climate flared. The Biden administration criticized the EU as too timid in dealing with China, while the EU criticized US violations of WTO rules. Yet, the US and Europe have developed a shared language of "de-risking" on China.

Trade conflicts worsened. Washington claimed CBAM hurt US exports. Europe complained about "national security" tariffs on European steel and aluminum exports. Europeans remained frustrated by what they considered a lack of seriousness in a US climate policy that prioritizes subsidies serving US industrial interests. They lamented US failure to consider potent instruments such as carbon pricing.

These conflicts will become secondary if, as looks probable, the Trump administration ceases to pursue a climate policy. Although it remains to be seen how much President Trump will unwind IRA climate subsidies, those carried over will no longer be justified by climate objectives. Gone is a common transatlantic vision for a positive-sum green transition.

An aggressive US strategy against China could damage European clean tech industries. A new US-Sino trade war risks rerouting Chinese products into Europe, forcing Brussels to strengthen its trade defenses.[106] Although Europe accepts de-risking, it aims to embrace cooperation and an open trade policy, while tackling unfair Chinese subsidies.

At best, the allies can hope to mitigate the risk of trade wars and collateral damage on climate policy.

Optimists point to areas of common commercial interest, such as the need to diversify critical raw materials. Some transatlantic climate diplomacy could take place among Europe and US states. The US Climate Alliance regroups 24 states

Photo: An electric car is being recharged during the launch ceremony of a charging station of State Grid Corporation of China in Xiamen city, southeast China. Credit: Imaginechina Limited / Alamy Stock Photo

representing 60% of US gross domestic product. The states are committed to the Paris Agreement and have engaged in ambitious climate policies, which employ tools similar to that of Europe's emission trading systems.[107] Although states have limited impact on US national policy, they could prove valuable partners.[108]

The outlook for cooperation on climate looks dark. At best, we can hope for disaster mitigation. At worst, prepare for confrontation.

Conclusion: Recommendations for a Transatlantic China Policy

By Daniel S. Hamilton

Although common or complementary US-European approaches to China could be a bridge too far, the stakes are such that it is worth exploring what a deal might look like.

Transatlantic approaches to China should be guided by three Ds: deconflict, disentangle, and deny. First, the US and Europe should deconflict their own bilateral ties so they do not endanger transatlantic cooperation on China. Second, they should disentangle their economies from uncomfortable dependencies on China. Third, they should deny critical technologies, data, or goods to China that could advance Beijing's military capabilities and revisionist goals.

To deal better with China, the transatlantic partners need to deal better with each other. Washington and Brussels can take an important first step by agreeing that they each have a common interest in deconflicting their own bilateral disputes to address the China Challenge. This does not mean ignoring bilateral problems; it means embedding them within a broader narrative of what unites, rather than what divides, the two sides of the North Atlantic.

On the European side, a transatlantic deal could include commitments to boost defense spending to 3% or more of gross domestic product; bolster support for Ukraine; diversify further from Russian energy; buy more US-produced liquified natural gas, agricultural products, and defense equipment; and refrain from levying unilateral digital services taxes on US firms.

On the US side, a deal could include commitments to maintain an active role in NATO, ensure Ukrainian security and sovereignty, refrain from imposing preemptive tariffs, or to explore effective global tax reform arrangements. Yet, both parties could forge an agreement to promote critical minerals security, identify specific areas of alignment toward China, and enlist like-minded countries.

Washington and Brussels have an interest in creating a process to manage bilateral issues so they can focus on the real challenge: China. The current US and European Union (EU) mechanism, the Trade and Technology Council (TTC), has proven to be unwieldy, with 10 working groups. Many disputes have been shelved, not resolved. The TTC has also been unable to focus transatlantic efforts on the China Challenge.

We propose a successor mechanism that would replace the 10 working groups with three pillars. Pillar One would focus on mitigating US-EU disputes and advancing bilateral cooperation. Pillar Two would comprise measures the two parties could advance directly to address China. Pillar Three would include areas in which the US and EU could address China-related issues by working with like-minded partners.

Pillar One: Manage Bilateral Conflicts

- **Strike a quick trade deal:** In 2018, President Donald Trump and European Commission President Jean-Claude Juncker avoided an all-out trade war by agreeing to "work together toward zero tariffs, zero non-tariff barriers, and zero subsidies on non-auto industrial goods" and to "reduce barriers and increase trade in services, chemicals, pharmaceuticals, medical products, as well as soybeans."[109] Juncker announced plans to buy more US liquefied natural gas; President Trump put aside his threat to impose tariffs on European cars. The two parties have an opportunity to revive and extend this arrangement.
- **End the steel and aluminum war:** Resolving the transatlantic standoff over steel and aluminum would align the two partners on China. An agreement promises to tackle global market distortions by nonmarket economies while addressing global emissions.
- **Conclude critical minerals agreements:** Deals would boost mineral production and processing critical to many US and European industries that are largely controlled by China. Building trusted and secure minerals supply chains with high standards is essential to competing with and reducing dependencies on China.[110] Current negotiations are stuck, in part because the US Congress, which has statutory authority over trade, has not been involved. Congress and the White House should now work together to specify negotiating objectives. The EU and United Kingdom (UK) are interested in finalizing these agreements in large part because they could enable all critical minerals listed in the US Inflation Reduction Act (IRA), that are extracted or processed in the EU or UK to count toward IRA tax credits.[111] Although the future of these tax credits under the Trump administration and a Republican-majority Congress is unclear, each side of the Atlantic has an interest in promoting secure critical minerals supplies.
- **Expand US-EU mutual recognition:** An updated and expanded agreement would increase the number of EU-located certification bodies that can certify for US standards and enable US-located certification bodies to certify for EU standards.[112] This would reduce costs without lowering standards, bolstering transatlantic trade while reducing each party's reliance on imports from China. Optimally, the deal would extend to the UK as well as to the European Free Trade Association countries of Iceland, Liechtenstein, Norway, and Switzerland.

Photo: Chinese yuan surrounded with US dollars and Euro banknotes. Concept of trade war between the China and USA, exchange rate, global economy. Credit: Oleg Elkov / Alamy Stock Photo

The existing 1998 standards deal covers various sectors, including telecommunications equipment, pharmaceutical products, and medical devices. An expanded agreement should include as many product categories and sectors as possible, with a priority on machinery, electrical equipment, clean tech, artificial intelligence, and cybersecurity.[113] An arrangement that reduces trade costs by 6% is estimated to grow EU exports to the US by $42.2 billion and US exports to the EU by $32.5 billion while reducing Chinese exports to the EU and US by $19.4 billion.[114] Unlike many policy interventions, this agreement does not entail any direct financial burden on taxpayers.

- **Improve transatlantic risk assessment:** The EU and US have each conducted supply chain vulnerability assessments and have identified roughly similar sectors of high dependencies on China. A joint assessment could sharpen each party's understanding of common supply-chain risks, enabling the allies to avoid overcapacity or duplicative investments.[115] Such an initiative should be expanded to encompass Group of Seven (G7) partners and include ongoing dialogue with the private sector on assessments of China-related geopolitical risk.

- **Be standard-makers, not standard-takers:** The allies should harmonize standards based on International Organization for Standardization, International Telecommunication Union, and International Electrotechnical Commission standards, both for emerging technologies such as artificial intelligence (AI) and for a wide range of industrial products, including machinery and electrical equipment.[116] Transatlantic digital trade should be facilitated through alignment on technical standards such as cybersecurity certification.[117]
- **Ensure that new EU laws do not privilege Chinese and Russian companies:**[118] The EU's Digital Markets Act (DMA) compels major US "gatekeepers" to offer additional choices for consumers. Many large Chinese and Russian companies such as Alibaba, Tencent, Huawei, Baidu, and Yandex are exempt. US companies are required to open their platforms to competitors, which forced Android to offer Yandex as a search option, even though Yandex sends user metadata to servers based in Russia. Chinese companies also stand to benefit. Without effective intellectual property and security safeguards, the DMA's data disclosure obligations could expose sensitive European and US data, intellectual property, and trade secrets to state-sponsored Chinese and Russian companies.[119]
- **Promote defense-related innovation:** NATO's Article 2 commits allies to promote "conditions of stability and well-being," "eliminate conflict in their international economic policies," and "encourage economic collaboration between any or all of them."[120] Allies have never made full use of Article 2. The alliance's Resilience Committee could be tasked with generating formal information-sharing mechanisms, facilitating cooperative arrangements, and devising common standards.[121]

NATO should explore several additional steps:

- **Build resilience:** Chinese and Russian actors are audaciously targeting the connective sinews of free societies. Moscow weaponizes flows of people, information, food, and energy.[122] Beijing manipulates flows of information and instrumentalizes flows of goods and critical materials to coerce others into abandoning actions deemed contrary to Chinese interests.[123] Actors from both states are interfering in the electoral processes of NATO's democracies.[124] Russian and Chinese intruders have infiltrated the classified networks of the Pentagon;[125] allied militaries;[126] and defense, finance, and foreign affairs ministries. They have implanted pre-positioned malware in nuclear plants, power grids, port cranes, and water systems—lurking time bombs that they could activate at a time of their choosing.[127] China has installed malware in US infrastructure from energy grids to port cranes, and appears to be complicit in some undersea sabotage.[128] Allies must move beyond country-by-country resilience metrics and adopt shared approaches that protect critical services from disruption.

Photo: President Donald J. Trump and President Xi of China | November 8, 2017
Credit: The White House.

- **Scrutinize and limit Chinese investments in ports:** Chinese state-owned enterprises control an estimated 10% of all European port throughput and have a direct presence in at least 15 European ports important to NATO military mobility.[129] Nine European ports feed real-time location status, logistics activities, and other data into LOGINK, a centralized information platform run by a Chinese government agency.[130] Such activities likely run afoul of the EU's General Data Protection Regulation.[131] The US 2024 National Defense Authorization Act prohibited the Department of Defense from entering into contracts with any port that provides data to LOGINK, yet the issue has not been resolved.[132]
- **Establish a Centre of Excellence in the Indo-Pacific:** Much like current centers in Helsinki and Bucharest, a new Asian outpost need not be a formal NATO entity; it could be open to participation by a host of actors, including the private sector.
- **Designate select NATO allies as "excepted foreign states":** Which means that entities from those allied countries that intend to invest in the United States are subject to less scrutiny than others.[133] Until now, the Committee on Foreign Investment in the United States (CFIUS), the US investment review

committee, has designated only the members of the Five Eyes intelligence-sharing program — Australia, Canada, New Zealand, and the UK — as "excepted foreign states."

Pillar Two: Address the China Challenge

- **Extend sanctions on China:** Washington has taken initial steps to blacklist Chinese individuals and companies who are enabling Russia's aggression in Ukraine. The EU's 15th sanctions package against Russia for the first time targets complicit Chinese companies and individuals with visa bans and asset freezes. While these steps are welcome, the transatlantic partners should expand their respective efforts and coordinate with other like-minded countries.
- **Expand export control coordination:** The United States and Europe can better use export controls to stem the flow of national security–relevant technologies to China.[134] The parties have agreed to control 50 high-priority items sought by Russia for its war in Ukraine, and these include sanctioned Chinese actors enabling Russia's aggression. Together with Asian partners, they should identify similar lists related to China. One model is the Coordinating Committee for Multilateral Export Controls during the Cold War.[135] Another potential model is the US-Japanese-Dutch deal to control advanced semiconductor manufacturing equipment to China, even though that arrangement continues to face problems.[136]
- **Align on data flows:** In 2023, the US executive branch and Congress took steps to control certain kinds of data flows to China, Russia, and other "countries of concern" for national security reasons.[137] While European countries have set up regimes that limit data transfers, national security restrictions remain the purview of the member states of the European Union. The transatlantic partners should address ways to coordinate such national security limitations on data flows.[138]
- **Coordinate on nonmarket policies impacting digital trade:** In May 2023, the allies agreed to exchange information on their respective policies linked to risks stemming from digital firms from nonmarket economies, but such efforts have languished. They should be revived.
- **Improve inbound investment screening:** The US and Europe share security concerns about some inbound investments from China. A US-EU Group aims to coordinate their respective inbound investment screening mechanisms, but this work is complicated because investment screening is the responsibility of EU member states.[139]

  The European Commission has proposed improving and harmonizing these disparate screening procedures, although considerable differences among member states have yet to be resolved.[140] Inbound investment screening mechanisms have also been adopted by many other key partners,

including Australia, India, Israel, Japan, New Zealand, the Philippines, South Korea, and Taiwan.[141] While this greater vigilance is welcome, national efforts are largely uncoordinated and governed by divergent criteria that can generate gaps in coverage and enforcement that Beijing could exploit.[142] For instance, the Commission's proposed regulation would include greenfield investments, while the US CFIUS process does not. Washington and Brussels should seek coordination, information sharing, and alignment on standards and coverage, together and via an expanded G7+ framework.[143] NATO may have a role to play.

- **Align on outbound investment screening:** The US and Europe share concerns that outbound investments in China, particularly in advanced technology sectors, could generate security risks. A new 2025 US Outbound Investment Security Program, the so-called Final Rule, enjoys bipartisan support and is likely to remain in effect, or potentially expanded, during the Trump administration.[144] The Final Rule restricts outbound investments in China, Hong Kong, and Macau for four technologies — semiconductors, microelectronics, quantum information, and AI systems — and requires industries to assess whether specific transactions may be covered by those limits.

  The EU is working at a slower pace on its own outbound screening mechanism for similar sectors.[145] Member states are currently monitoring outbound investments for one year and European efforts are likely to be a patchwork for some time. The EU also tends to eschew country-specific targeting, and so is unlikely to single out China — unless the bloc decides to abandon its so-called country agnosticism, as it has done with Russia. The transatlantic partners should seek to inform each other, and where possible align their efforts with each other, and with partners such as the UK, Canada, Australia, Japan, and South Korea.

Pillar Three: Work With Like-Minded Partners

- **Strengthen and expand transatlantic work on critical minerals:** The Minerals Security Partnership includes the United States, the EU, and 13 additional countries.[146] Members are exploring ways to support minerals projects around the world to alleviate dependencies on China, both by diversifying production and refining sources, and by promoting high standards in the mining, processing, and recycling sectors that are difficult for Chinese firms to meet. The Minerals Investment Network for Vital Energy Security and Transition is a public-private partnership to build a private sector network to stimulate critical minerals investments. These initiatives, while promising, have been making slow progress. They should be revitalized by reaching out to additional public and private sector actors, particularly in mineral-rich countries.[147]

Photo: Beijing, China. 16th May, 2024. Chinese President Xi Jinping (L) holds a welcome ceremony for Russian President Vladimir Putin at the square outside the east gate of the Great Hall of the People, before their talks in Beijing, capital of China, on Thursday, May 16, 2024. Photo by Ministry of Foreign Affairs of Russia/UPI. Credit: UPI/Alamy Live News

- **Counter Chinese theft of intellectual property:** China is the world's leading violator of intellectual property rights, which are critical to the innovation that drives the US and European economies. The US, EU, and UK each act individually to counter these Chinese activities. They can be more effective by sharing their knowledge and analysis of China's threats to intellectual property, and by working together to strengthen intellectual property regimes in countries like Mexico, Vietnam, Indonesia, and India.[148]
- **Support trusted digital vendors:** The US and EU have made progress in recent years promoting the use of trusted vendors in telecommunications. They should extend that support to the provision of subsea and fiber optic cables and the development of fifth- and sixth-generation networks, both in their own home jurisdictions and in third countries, while working to prevent untrusted vendors from accessing those networks.[149]
- **Revive and expand US-EU-Japanese talks:** The 2018 Trump-Juncker deal included an agreement to "work closely together with like-minded partners to reform the WTO [World Trade Organization] and to address unfair trading

practices, including intellectual property theft, forced technology transfer, industrial subsidies, distortions created by state owned enterprises, and overcapacity."[150] The US, EU, and Japan also joined forces to address Beijing's nonmarket practices.[151] During the Joe Biden administration, the G7 focused on China. An expanded group that includes countries such as Australia, South Korea, and Norway could adopt a coordinated messaging campaign on Chinese practices and how they cause harm. The goal should be to press China to acknowledge that it is now a middle-income economy, and should no longer be accorded preferential treatment in international agreements by claiming it is a "developing country."[152]

- **Promote secure and resilient connectivity:** The security of critical flows of goods, services, energy, food, medicine, and digital connections are increasingly threatened by the fragmentation of the global trading system and by risks to global sea lines of communication.[153] Given efforts by Chinese and other actors to disrupt these vital flows, securing physical and digital connectivity will be critical for economic and national security.[154]
- **Align the EU's Global Gateway initiative with US and other initiatives:** Such as the Blue Dot Network and the Partnership for Global Infrastructure and Investment.[155]
- **Strengthen and expand the Partnership for Atlantic Cooperation:** A network of 42 Atlantic countries dedicated to addressing common challenges, including improved pan-Atlantic connectivity.[156]
- **Strengthen existing initiatives to enhance maritime safety and security:** The United States and its European partners should work together on naval protection through the Combined Maritime Forces, Operation Prosperity Guardian, and the European Maritime Awareness mission in the Strait of Hormuz. Such efforts should become part of a broader transatlantic connectivity agenda, be coordinated in a more structural rather than ad hoc manner, and receive appropriate resourcing.
- **Launch a "Free Road Initiative":** This could help global partners develop and diversify their connectivity options. One flagship project, the Lobito Corridor in Africa, is an essential initiative to secure the flow of critical minerals and offer minerals-rich countries alternatives to Chinese investments. With due regard for the current turbulence engulfing the Middle East, a second flagship project could be the India–Middle East–Europe Economic Corridor, which promises to secure and diversify supply chains with the Middle East and India, important trading partners for the European Union and United States.

About the authors

Daniel S. Hamilton is President of the Transatlantic Leadership Network, a Senior non-resident Fellow at the Brookings Institution, and a Senior Fellow at the Foreign Policy Institute of Johns Hopkins University SAIS. He co-chairs CEPA's Technology, Trade, & Security (TTS) Dialogue and is the author, with Joe Quinlan, of The Transatlantic Economy 2024.

Niclas Poitiers is a research fellow at the Brussels-based economics think tank Bruegel. He researches topics in international trade, global supply chains, and industrial policy. Niclas writes extensively on the geopolitical aspects of international trade and how shifts in global politics reshape supply chains. He holds a Ph.D. in economics from Universitat de Barcelona and was a visiting scholar at Northwestern University.

Ron Stoop is a strategic analyst at The Hague Centre for Strategic Studies.

Dr. Tim Sweijs is the director of research at The Hague Centre for Strategic Studies.

Pauline Weil researches high-tech trade and agriculture policy. She has worked for the think tank Bruegel, as an economist for the credit insurer Coface, and for the Directorate-General for International Partnerships in the Directorate for Asia at the European Commission on development aid policy.

This report is based on a yearlong series of CEPA-sponsored workshops of leading European and US experts that Dan Hamilton and Lucinda Creighton chaired together under the Chatham House rule.

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Center for European Policy Analysis HQ
1275 Pennsylvania Ave NW, Suite 400
Washington, DC 20004

info@cepa.org | www.cepa.org