

Bridging the Gap: Priorities for Transatlantic China Policy

Report by the Aspen Strategy Group,
the Mercator Institute for China Studies,
and the Munich Security Conference

February 2023



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Foreword

In July 2021, the Aspen Strategy Group (ASG), the Mercator Institute for China Studies (MERICS), and the Munich Security Conference (MSC) published a report called “Mind the Gap: Priorities for Transatlantic China Policy.” It was based on the work of a reflection group that brought together distinguished Americans and Europeans with a wealth of expertise on China and transatlantic relations.

As reflected in the title, the report recognized that European and North American policies on China have different starting points. Nevertheless, in their foreword the co-chairs of the reflection group, Wolfgang Ischinger and Joseph Nye, argued:

“Faced with the reality of China’s policies today, the democracies of Europe and North America must join forces to defend and advance their interests and their values. If they do so, in cooperation with like-minded partners around the world, we firmly believe they will be able to hold their own in any competition with China. And by working together rather than separately, Canada, Europe, and the United States will create a basis for a more fruitful dialogue with China in the future.”

Eighteen months on, ASG, MERICS, and MSC decided to review the state of play and produced this update with the support of members of the reflection group as a contribution to the 2023 Munich Security Conference.

In a nutshell, we have concluded that there has been significant convergence in perspectives, solid progress in terms of creating a framework for structured dialogue, and a number of joint actions. Nonetheless, significant gaps remain. This is partly a matter of differences in economic exposure and different assessments regarding the risks and benefits of entanglement with China. Strategic concerns are also at play: Whereas US views have mostly aligned on a more confrontational approach, key European players remain concerned about the emergence of antagonistic “blocs.” There is hence a continued need to bridge the gap.

Differences between European and North American attitudes notwithstanding, the overall dynamic between transatlantic partners and China has increasingly been dominated by rivalry. Whether the relationship continues on this negative trajectory will depend in good part on decisions taken in Beijing.

In our work, we have benefitted from a multitude of engagements with governments, international organizations, the business community, analysts, and civil society representatives. As was the case in 2021, the three organizations concerned and the individual members of the reflection group do not necessarily subscribe to each and every aspect of the analysis and recommendations contained in this report. Instead, it represents an effort to capture a consensus among those involved.

It is our hope that the report will generate debate and help transatlantic partners chart a more coordinated path in shaping their relationship with China, without doubt one of the most important challenges of our time.

Mikko Huotari, Anja Manuel, Boris Ruge



Introduction

When the 2021 report of the reflection group on transatlantic China policy was published, the trend was one of convergence among transatlantic partners in terms of perceptions and policies. Eighteen months later, following the 20th Party Congress of the Chinese Communist Party (CCP) and several elections on both sides of the Atlantic, where do we stand?

Over the past year and a half, Beijing has continued to project enormous self-confidence, but the challenges China faces raise questions about that self-assured image. Domestically, the 20th Party Congress confirmed the consolidation and extension of Xi Jinping’s rule. Under Xi’s leadership, the CCP has exerted party control across the board. Internal repression and the central role of ideology have steadily increased. Greater political control meets economic uncertainty: Coming on top of slowing rates of economic growth, technological decoupling pressure, a real estate, job market and productivity crisis are fueling internal social and economic stress.

In late 2022, Chinese authorities made a sudden U-turn in public health policies, abandoning the Zero-COVID policy, which led to a rapid surge in infections and deaths across the country. Beijing still refuses to use available Western mRNA vaccines to protect its own citizens. There has also been little improvement regarding transparency on the part of Chinese authorities since the outbreak of the pandemic in late 2019.

China has continued the buildup of the People’s Liberation Army (PLA), increasing its military capabilities at significant rates, including an effort to expand its arsenal of strategic nuclear weapons. The implications for the balance of power in the Indo-Pacific (and beyond) have led US military leaders to question the credibility of America’s regional deterrence posture. Meanwhile, tensions in the Taiwan Strait have increased. There are deepening rifts in China’s relationship with regional players, such as Japan, South Korea, and India, where there is growing wariness of Beijing. Some Indo-Pacific nations have taken action to build up their defenses, with Japan announcing a major increase in military spending and changes to its national security policy in December 2022.

China has stopped well short of providing all-out support to Russia’s war of aggression against Ukraine. But it has given political backing to Moscow. The war has unequivocally changed the relationship between the two revisionist powers, with Beijing now increasingly assuming the role of a senior partner. In December 2022, China returned to global diplomacy at the G20 summit in Bali, initiating what some anticipate will be a global “charm offensive”.

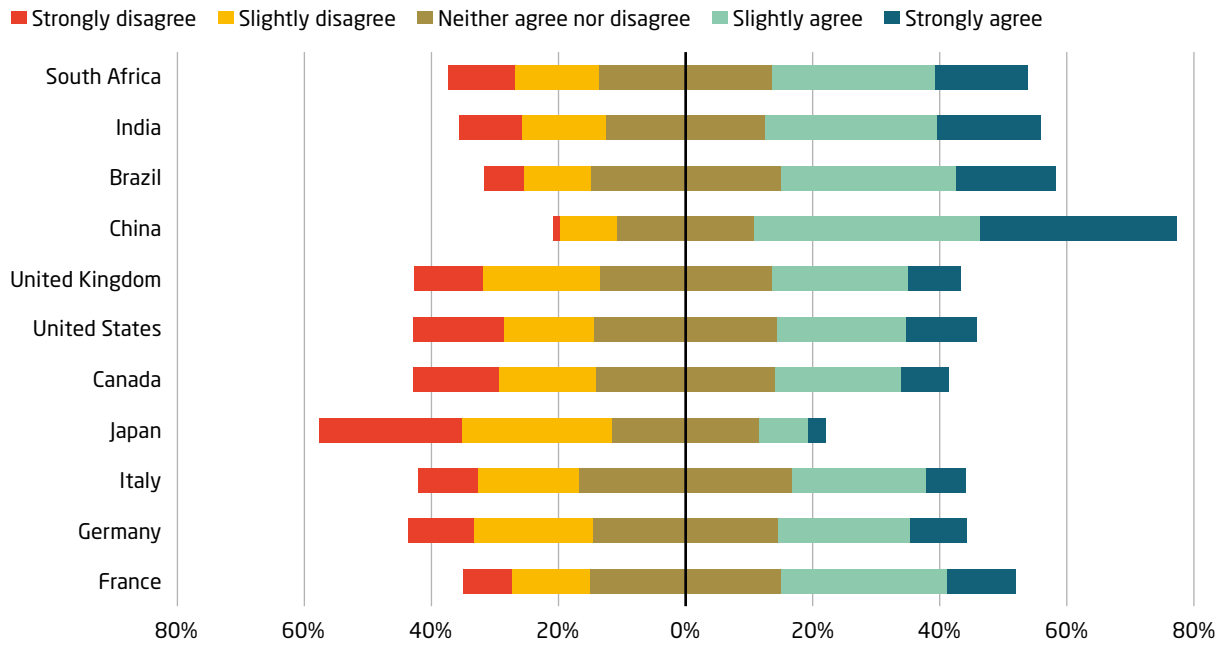
“We should grasp the contemporary features of the great new struggle, seize historical opportunities, and get a head start.”¹

The State Council of the People’s Republic of China, Resolution of the CPC Central Committee on the Major Achievements and Historical Experience of the Party over the Past Century, November 16, 2021

Exhibit 1

For most citizens surveyed, China's peaceful rise still seems possible

Q: China can rise in power peacefully - do you agree or disagree?

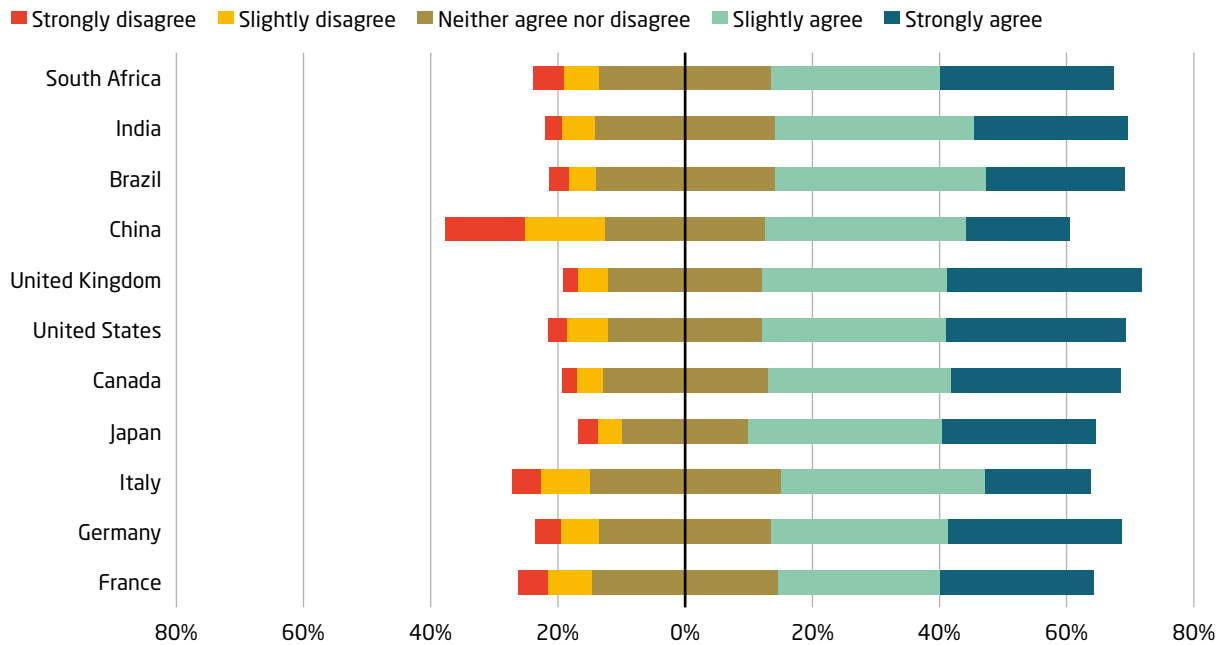


Source: Munich Security Index 2023 (Munich Security Conference and Kekst CNC)²

Exhibit 2

Russia's war against Ukraine aggravated concerns about China

Q: China's response to Russia's war against Ukraine has made me wary / more skeptical of China's own ambitions - do you agree or disagree?



Source: Munich Security Index 2023 (Munich Security Conference and Kekst CNC)³

On the US side, there is broad bipartisan consensus regarding China policy, with President Joe Biden building on initiatives taken by the Trump administration. The October 2022 US National Security Strategy (NSS) describes China as “the only competitor with both the intent to reshape the international order and increasingly, the economic, diplomatic, military, and technological power to do it.” The NSS identifies the next ten years as “the decisive decade.”⁴ It also highlights alignment with US allies and partners as a key element of America’s strategy toward China. At this point, Taiwan and securing long-term technological leadership (“outcompeting China”) appear to be the top issues in the US debate.

In August 2022, Speaker of the House Nancy Pelosi visited Taiwan to show “unwavering commitment to supporting Taiwan’s vibrant democracy.”⁵ China reacted by conducting aggressive military exercises around Taiwan and firing missiles into Taiwan’s and, significantly, Japan’s exclusive economic zone. The 2023 US National Defense Authorization Act (NDAA) includes new initiatives to bolster Taiwan’s defense capabilities and diplomatic support for Taiwan. Meanwhile, the new Republican majority of the US House of Representatives created a bipartisan “Select Committee on China” and signaled its intention to visit Taipei in 2023.

Both the United States and China are busy decoupling their advanced technology sectors from each other. China is seeking to control strategic value chains across a wide range of industries and advancing with Xi’s indigenous innovation and self-reliance ambitions. In October 2022, the Biden administration issued a sweeping set of export controls aimed at restricting China’s ability to obtain advanced computing chips, develop and maintain supercomputers, and manufacture advanced semiconductors. Washington was able to secure close cooperation on these controls from allies with critical capabilities, including the Netherlands and Japan. Most likely, this is only the first step to constrain China’s progress on “force-multiplying technologies,” including biotech and clean tech, and EU-US or like-minded alignment is by no means a given.

Such efforts suggest a sea change in America’s overall approach to technological relations with China, the aim being to ensure that the United States keeps as large of a lead as possible. China, in turn, continues to invest massively in its own advanced technology development to surpass the West. Europe remains at risk of falling further behind in this tech competition.

In Europe, increasingly large segments of the public hold unfavorable views of China, with public approval of China in many European Union (EU) member states reaching an all-time low. In 2022, relations between the EU and China became more tense, with Europe’s 2021 sanctions against China over human rights violations as well as Beijing’s countermeasures remaining in place. As a result, there was no movement toward ratification of the 2020 EU-China Comprehensive Agreement on Investment and there seems little prospect of this happening anytime soon.

New tensions arose in August 2021 after Lithuania allowed the opening of a Taiwanese Representative Office and Beijing reacted by blocking trade with this member state of the EU and NATO. In January 2023, the President-elect of the Czech Republic, Petr

“The greatest threat to the United States is the Chinese Communist Party. The CCP continues to commit genocide, obscure the origins of the coronavirus pandemic, steal hundreds of billions of dollars worth of American intellectual property, and threaten Taiwan.”⁶

—
Congressman Michael Gallagher (R-WI),
Chairman of the House
Select Committee on China,
December 8, 2022

Pavel, spoke with Taiwanese leader Tsai Ing-wen over the phone, the first EU head of state in decades to do so upon an election victory.

Building on the EU's Indo-Pacific Strategy of 2021, the March 2022 EU Strategic Compass noted China's "increasingly assertive behavior." It went on to state that China's integration into the world must happen in a way that will "not contradict the rules-based international order and our interests and values."⁷ Governments across Europe have come to take a much more critical view of Beijing with the EU-China summit in April 2022 resulting in what High Representative Josep Borrell described as a "dialogue of the deaf."⁸ The reality of systemic rivalry is now widely recognized as the salient feature of EU-China relations. The new direction of policy agreed to by EU foreign ministers and heads of state/government in October 2022 reflects this dynamic.

Overall, in terms of transatlantic China policy, there has been real convergence since our 2021 report, first and foremost in terms of engaging in structured dialogue. The EU, its member states, Canada, and the US have invested in more continuous coordination on China, including in the framework of the US-EU Trade and Technology Council (TTC)⁹, the regular High-Level EU-US Dialogue on China¹⁰, as well as in NATO and the G7 (also including Japan as a key player).

Three years after NATO referenced China for the first time ever in a public document, the alliance's Strategic Concept of June 2022 noted that the People's Republic of China's "stated ambitions and coercive policies challenge our interests, security and values." The document describes China as striving "to subvert the rules-based international order, including in the space, cyber and maritime domains."¹¹ Since then, China has been a regular feature on NATO's agenda, with a focus on how the PRC challenges security in the Euro-Atlantic area but also looking at issues traditionally considered outside of the alliance's remit.

Transatlantic coordination was also key to sending clear and aligned signals on the challenges posed by China at the G7 summit in June 2022 and on the need for preserving peace and stability across the Taiwan Strait during the tensions surrounding Speaker Pelosi's visit to Taipei in last August.

While there has been solid progress in transatlantic China policy, a sober assessment must lead to the conclusion that significant gaps remain and that much of the progress thus far has been rhetorical and diplomatic, as important as this may be. Nor is future progress assured. This is partly a matter of varying levels of economic exposure and differing perspectives on the balance of the risks and benefits of deeper entanglement with China. Given the political and economic stress resulting from Russia's war of aggression, European countries are debating how robust an approach toward China is advisable and realistic, and in what timeframe.

In part, the gap reflects differences in strategic outlook. Among European governments there is no agreement whether to align closely with the US or whether to stake out a distinct position. French President Emmanuel Macron has repeatedly warned against the creation of blocs. German Chancellor Olaf Scholz made the same point recently in

"Poland is a sovereign nation and decides its own politics towards China ... Poland is an ally of the United States but Poland also has a very friendly relationship with China."¹²

Jakub Kumoch, Foreign Affairs Advisor to the President of the Republic of Poland Andrzej Duda, January 18, 2022

Foreign Affairs, adding that “China’s rise does not warrant isolating Beijing or curbing cooperation.”¹³ Many in Europe see a multipolar world as a reality and one that is not necessarily disadvantageous.

On the US side, Washington’s decision to act more or less unilaterally on crucial technology issues undermines the development of a common approach. The EU and the United States agree that complete decoupling is not the way forward. However, sweeping US export controls on the semiconductor industry and the apparent likelihood of measures in other fields highlight that the United States and Europe are only partially aligned on the appropriate depth of technology decoupling from China. This offers Beijing opportunities to drive a wedge between transatlantic partners.

The outlook for transatlantic China policy also depends on whether the United States and Europe can resolve key differences among themselves over trade and investment, most recently those arising from the Inflation Reduction Act (IRA) and soon from the EU’s Carbon Border Adjustment Mechanism (CBAM). If they cannot, it will be much harder to agree on China policy.

Finally, over time, Russia’s war of aggression against Ukraine will increasingly impact transatlantic China policy. For Europe, Ukraine is the most pressing issue. For the United States, China is ultimately the top concern. The more Washington invests in supporting Kyiv and protecting European allies, the likelier it becomes that the United States will ask for greater European alignment in the competition with China.

Transatlantic partners are faced with a complex set of challenges. Getting economic security and tech competition right will be of crucial importance, to name but one example. Nonetheless, a vital task will be to deter and prevent an attack by the PRC on Taiwan. Clearly, the consequences of conflict over Taiwan would dwarf the fallout of Russia’s war against Ukraine.

It will be up to Taiwan, the United States, Japan, and possibly other Indo-Pacific partners to create a military deterrence posture that is effective and sustainable. But Europeans must also contribute to deterrence. At a minimum, they should do so by strengthening diplomatic and economic ties with Taiwan. European leaders have begun to convey in clear terms to Beijing that Europe has a stake in the preservation of peace and stability in the Taiwan Strait. They should also clarify that the use of force would result in pre-agreed sanctions.

At the same time, transatlantic partners must be absolutely clear that they will not support any moves toward the independence of Taiwan.

On the issue of bipolarity and blocs, Europeans should recognize that the central challenge posed by China is about the very future of the international order and the future of the international economy. It is a struggle over basic norms and therefore not one in which Europe can stand aside. In this contest, the Global South will play a key role. Transatlantic partners must therefore redouble their efforts to reach out to actors in the Indo-Pacific, Africa, the Middle East, and Latin America to enlist their support wherever possible.

“We have partners, we have allies, we have converging values with the United States of America which are strong, but we have always kept our independence.”¹⁴

Emmanuel Macron,
French President,
Conference of Ambassadors,
September 1, 2022

The past eighteen months have once again raised the stakes in the ongoing competition with China. Europeans and North Americans need to increase their efforts to design and execute effective policies vis-à-vis Beijing. In 2023, transatlantic China policy will have to deliver in an environment of serious global uncertainty, persistent turbulence in energy markets, supply chain disruptions, and a dramatic slow-down in global growth. Whether transatlantic partners get it right in the short-term will also determine the chances of success in the “decisive decade” that lies ahead.

So far, transatlantic partners have not made enough progress beyond institutionalized dialogue. Having conversations in diplomatic and technocratic bubbles is not the same as producing a real-world impact, especially vis-à-vis a third actor.

Europeans cannot afford to take a back seat. They must become more active in advancing their own resilience and more robust in upholding the rules-based order and global stability. America, in turn, would do well to bring partners on board earlier and avoid any appearance of unilateral action in its efforts to shape a complex international environment.

Most importantly, concrete action is required on the range of issues which we have sought to identify in this report. If transatlantic partners stand together, they will be able to defend their interests and values as well as laying the groundwork for a more stable and peaceful international order.

Priorities for Action

Maintaining and deepening transatlantic alignment on China is a necessary condition for sustainable partnerships between the United States, Canada, the EU, and its member states in the coming years.

In the next eighteen months, transatlantic alignment on China will be tested on multiple fronts. China's reopening and return to the global stage is a welcome development. At the same time, there may be different analyses of the future trajectory of China creating strategic confusion. Beijing's diplomatic charm offensive is obviously intended to exploit differences between transatlantic partners.

The rise of the "economic security" paradigm may produce greater unity. But there is a danger that it will jeopardize the alignment that has been achieved. Perspectives and policies are currently converging on the risks associated with asymmetric interdependence and the need to maintain an edge on critical technologies vis-à-vis China. A lack of coordination and a wholesale securitization of the relationship with China could undermine this convergence.

Pushing for an Economic Level Playing Field

Beijing's economic policy is likely to exacerbate existing market distortions and create new ones. Partners on both sides of the Atlantic assess the likelihood of "leveling the playing field" and greater reciprocity with China differently – and act accordingly. While there is general convergence on the challenges China poses, frictions in the bilateral relationship threaten to derail initial attempts to shape the next era of globalization. More than ever, US and EU partners need a new strategic impulse for a transatlantic trade policy agenda. This will require shaping domestic policy debates on both sides more effectively. Meanwhile, key priorities for greater alignment on trade policy vis-à-vis China include:

- Moving beyond rhetorical alignment in the G7 and TTC contexts
- The United States and the EU should lead a plurilateral negotiation to establish the rules of the road in the global subsidies race
- Tackling Chinese distortions in third markets

Advancing Shared Economic Security and Retaining the Technology Edge

There is an urgent need and vast opportunities for the United States, Europe, and like-minded partners to ensure greater alignment on de-risking interdependence with China and diversifying economic partnerships. Closely related in the field of technology, partners should utilize common standards and safeguard against vulnerabilities Beijing might seek to exploit. Key priorities to advance a shared economic security regime whilst retaining the edge in tech include:

- Closing gaps in technology controls
- Improving supply-chain security through diversification
- Aligning principles on AI governance and ethics as well as knowledge and research security

Providing Alternatives on Infrastructure and Connectivity

Transatlantic (and like-minded) coordination on infrastructure and connectivity is ultimately about engaging the Global South. Transatlantic partners have made progress in terms of creating new frameworks for coordination and mobilizing resources. However, they will be judged by what they deliver in the real world. Key priorities in the near-term include:

- Making best use of the Partnership for Global Infrastructure and Investment and Global Gateway
- Taking flagship projects forward
- Promoting a joint narrative

Engaging China on Combatting Climate Change

Combatting climate change will require engagement with China while managing fierce industrial competition on green and clean tech. Transatlantic efforts should be geared toward doubling-down on their own commitments, leading the global green tech transformation, deepening partnerships with developing countries, and building joint leverage vis-à-vis China. Key priorities include:

- Expanding alignment on the Loss & Damage fund (COP27)
- Closing the gaps between methodologies for carbon accounting
- Aligning procedures on environmental standards

Setting the Agenda in International Institutions

As an arena for great power struggle and normative contestation, China will continue to push aggressively to shape international institutions to its liking. Transatlantic partners should build and maintain coalitions to safeguard a multilateral system that reflects liberal and democratic ideas better than Beijing's alternative. At the same time, US and EU partners should align forces to prevent the emergence of fortified blocs around the BRICS+ and the G7 where feasible. Key priorities to that end include:

- Monitoring and sharing information on China's new global initiatives like the GDI, the GSI, and the GDSI
- Contesting China's norm- and standard-setting efforts in international organizations
- Avoiding competition against each other in international organizations

Preserving Liberal Society and Promoting Human Rights

The United States and the EU are increasingly aligned on the need to counter PRC threats to liberal society and human rights. They succeeded in joining up with like-minded partners at the Summit for Democracy as well as in the G7 and the G20. What is still missing is a more strategic approach. Over the next six to eighteen months, transatlantic partners should prioritize the following measures:

- Taking a stand against human rights violations in international fora
- Fighting forced labor by aligning legislation on imports
- Developing a comprehensive approach toward influence operations, political interference, and economic coercion

Maintaining a Balance of Power for a Free and Open Indo-Pacific

Transatlantic partners are faced with complex and interconnected security challenges in both Europe and the Indo-Pacific, with difficult trade-offs involved. Regarding Taiwan, a key question is how credible deterrence can be maintained in the face of China's growing military power. It will be crucial to maintain the status quo which includes abstaining from any moves towards independence. In the near term, transatlantic priorities include:

- Building broad-based deterrence, combining different tools available to the United States, Canada, and Europe, including a transformation of the US force posture in the Indo-Pacific
- Getting European security right, freeing up US capabilities
- Engaging China on transparency, arms control, and risk reduction

Chapter 1:
Pushing for an Economic Level Playing Field

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1. State of Play: More Distortions, Uncertainty, and a Subsidies Race Ahead

The stakes have never been higher for the members of the Organisation for Economic Co-Operation and Development (OECD) when it comes to making progress on levelling the playing field vis-à-vis China for their businesses. Beijing’s renewed emphasis on security, self-reliance, autonomy, and control in its industrial ambitions as well as its playbook to deal with economic downward pressure and deepening internal imbalances are likely to exacerbate existing market distortions and create new ones.

Deep uncertainty due to Beijing’s pandemic management and its ideological and political interventions have, however, created a new environment for the pursuit of coordinated efforts by like-minded partners. Entering China’s marketplace and dealing with economic security concerns and supply-chain frictions as well as geopolitical risks have become more pressing concerns for many companies and business chambers in the past months.

Meanwhile, China’s government has continued to promise or to implement selective *de jure* opening measures. Several large multinational firms are investing heavily in the country, which often complicates finding common ground at home regarding more assertive stances against Chinese distortive practices.

Transatlantic discussions on levelling the playing field vis-à-vis China have taken a backseat amid the global “polycrisis.” The EU and the United States have managed to lower some critical bilateral tensions, including in the aerospace sector or regarding certain “Trump tariffs,” in initial administrative agreements on transparency for public support for semiconductors, or in the potential alignment on transatlantic data flows with the Biden administration’s October 2022 executive order bridging some gaps with the EU’s General Data Protection Regulation (GDPR) standards framework.¹⁵ Those fixes are largely short-term, though, and their sustainability is not guaranteed.

While such “damage control” efforts should in theory enable both sides to pursue more robust cooperation in dealing with China, agreements remain fragile. They are overshadowed by new hurdles or disputes on the horizon. Perspectives on China’s economic trajectory continue to converge, not least through newly established frameworks such as the EU-US TTC, but alignment on the right mix of tools in responding to the long-term strategic economic challenges posed by China’s “party-state economy” is still limited. On key issues, including the role of the World Trade Organization (WTO) dispute settlement and WTO reforms to tackle China’s market distortions, quite fundamental rifts between the EU and the US positions remain, despite limited successes such as the June 2022 WTO ministerial conference delivering results above expectations. US and EU effort on reforming the Special and Differential Treatment of the WTO have not been revived since 2019 but it offers an opportunity to kill two birds with one stone since the developing-country status of China is deemed problematic on both sides of the Atlantic.

“We need to focus on de-risking rather than decoupling. This means using all our tools to deal with unfair practices, including the new Foreign Subsidies Regulation. We will not hesitate to open investigations if we consider that our procurement or other markets are being distorted by such subsidies.”¹⁶

Ursula von der Leyen,
European Commission
President, World Economic
Forum in Davos, Switzerland,
January 17, 2023

China, the United States, and, increasingly, other economic powers seem to prioritize “self-strengthening” over any renewed attempts to update the global trade rule book. The prospects of future carbon border adjustment mechanisms and a global subsidies race for the development of critical industries, including semiconductors and green technologies, further complicate the picture for transatlantic alignment on distortive practices by China. Tensions over discriminatory localization requirements in new industrial policy measures or possible WTO breaches related to border adjustment are likely to distract further from effective transatlantic coordination.

2. Actions Taken by Transatlantic Partners

The EU continues to insist on its “rules and tools” approach in dealing with market-distortive practices by China. It launched two new WTO cases in December 2022 and has been very active, assertive, and innovative in deploying unilateral trade defense instruments, including by tackling Belt and Road Initiative (BRI)-related transnational subsidies and treating state-owned enterprises (SOEs) as “public bodies” in trade defense instruments (TDI) cases. The EU is also recognizing deep-rooted distortions in China’s labor market related to the lack of effective freedom of association and bargaining of workers. A significant upgrade of its toolbox against distortions is underway. The International Procurement Instrument has been adopted but not yet implemented, the foreign subsidies instrument is pending final approval, and the anti-forced labor instrument has strong traction in the EU institutions but the timeline for its finalization remains unclear.

The United States has done nothing to promote WTO reform and has invested little in anti-distortion actions. The Biden administration has acknowledged that the 2020 “Phase-1” trade deal has failed in tackling the systemic challenges posed by China as well as the need for new tools to tackle Chinese distortions. It has, however, neither lifted relevant tariff measures nor been particularly active in using more traditional TDIs against China. The administration’s attention seems to have shifted to the arena of economic security, coercion, and technology controls. Exceptions are almost exclusively Congress-driven and in the form of tighter enforcement of transparency obligations for Chinese firms in US financial markets (August 2022) and the passing of the antitrust bill, which includes notification requirements for foreign subsidies from “foreign entities of concern” (September 2022). The latter at least creates parallels between the EU and the United States in seeking to manage the spillovers of market distortions from China.

The long-overdue United Nations (UN) report on Xinjiang issued in August 2022 also provides new international backing for coordinated trade policy measures against human rights violations by Beijing.¹⁷ The rare trilateral joint statement by the EU, Japanese, and US trade and labor ministers in September¹⁸ as well as the new Trade and Labor Dialogue in the framework of the TTC can further help bridge differences in approaches.¹⁹ During his visit to the United States in January, Japan’s Trade Minister Nishimura Yasutoshi called on Washington to reactivate efforts toward the conception of a renewal of a global economic order with a focus on dealing with distortions and economic coercion.

Beyond parallel developments, joint action currently remains very limited. Both sides have successfully coordinated statements on shared concerns, for instance in the framework of the G7 and TTC,²⁰ but trilateral coordination with Japan on related issues

“In our competition with China to shape the 21st-century global economy, we cannot go at it alone. As Secretary Blinken articulated earlier this year, the Biden administration’s approach to China is centered not only on investment at home but also on alignment with our allies and partners abroad.”²¹

———
Gina M. Raimondo,
US Secretary of Commerce,
MIT, November 30, 2022

seems stalled. There has been no explicit endorsement by the Biden administration of agreements inked within this framework including on subsidy and SOE disciplines. Some issue areas that have been identified in the TTC for potential coordination will require follow-up in the coming months. The IRA continues to complicate the transatlantic relationship. At the time of drafting this report, the EU's industrial policy response to the IRA was still to be discussed among heads of state and governments at a special summit in early February 2023. And 2023 will indeed be a critical year to seek greater alignment on the green/sustainable trade agenda, with the CBAM, the G7's Climate Club project, the US-proposed green steel club, and sustainable trade initiatives currently being rather unrelated and partly competing initiatives (see chapter 4).

3. Priorities for Joint Action

- **Getting the basics of trade policy coordination on China right:** There is still a lot to be gained by very basic but more systematic and structured information sharing and awareness raising among like-minded partners on Chinese distortions. To strengthen internal as well as global alignment on the real challenges of China's distortions, leaders will have to strike a balance between policy responses geared at levelling the playing field and efforts to strengthen economic security (see chapter 2). US and EU leaders should also support the idea of competing effectively in China and not discourage companies from trading and investing, as long as is the latter do not contradict narrowly defined national security imperatives.
- **Moving beyond rhetorical alignment in the G7 and TTC contexts:** The TTC should seek to coordinate the launching of cases against Chinese practices and/or sectoral efforts, including on medical devices, rail, or government-owned/controlled investment funds. The green steel club proposal or the new sustainable trade initiative require decisive follow-up from all sides including during the Japanese G7 presidency.
- **The United States and the EU should lead a plurilateral negotiation to establish the rules of the road in the global subsidies race. Like-minded partners, including the EU, South Korea, and Japan should be** spared from negative spillovers from the IRA. Where WTO non-compliance is likely, damage control will be required, as well as the toning down of political rhetoric around like-minded competition and restraint in possible retaliatory action. "Clean tech" should not be turned into a transatlantic battle ground. Serious transatlantic engagement is required on preferences, scope, and modalities for a renewed "level playing field rulebook" but it needs to be attractive for developing countries, too.
- **Using new opportunities arising from EU-US convergence on tackling human right abuses in Xinjiang and forced labor in general.** The work to be done by Japan and the US Trade Representative will provide examples for how to do this. Actions against forced labor in fisheries can be an area of joint action in the short term.
- **Tackling Chinese distortions in third markets:** The transatlantic partners should start information sharing, develop shared principles, and coordinate action on Chinese distortions, including "package offers," in third markets. Export credit, anti-corruption, and unlinked developed financing are areas where the transatlantic partners have converging preferences and interests, and where aligned action can help level the playing field with Chinese competitors on third markets.

"China's growth and development over the past 20 years in particular has profoundly changed the global economy and created pressures and distortions that we need to correct for."²²

Katherine Tai, US Trade Representative,
December 19, 2022

Chapter 2:
Advancing Shared Economic Security and
Retaining the Technology Edge

Chapter 2: Advancing Shared Economic Security and Retaining the Technology Edge

1. State of Play: De-Risking in Action

China has declared its intention to become the world's leading technology and innovation power. This has enormous security implications for the United States and Europe. The transatlantic partners must aim to stay in the technological lead in a few key areas so as to protect their national security, industrial base, and values-based economic growth.

To accomplish this, the United States and Europe must take “defensive” actions to prevent intellectual property theft, forced technology transfers, and China's purchase of key dual-use technologies, as well as secure technology supply chains.

Equally important, to remain in the lead the United States and Europe should pursue positive “offensive” actions, such as joint research and development (R&D), subsidies to key industries, and coordinating their values around technology.

China's declared aim of becoming a leading technology player that can use – and abuse – its dominance in global supply chains for political goals, the growing innovation capacity and global technological clout of Chinese companies, as well as Beijing's renewed focus on military-civil fusion and self-reliance policies, should worry officials on both sides of the Atlantic.

Commercial incentives to deepen interdependence with China are much higher than with any past competitor of the advanced liberal-democratic market economies. China has ended its Zero-COVID policy, and it dangles promises to open additional markets to Western companies. However, the transatlantic partners are increasingly wary of relying on a country that aims to leverage its economic strength to achieve political ambitions that conflict with transatlantic values.

Technology remains the key element in the competition between China and the EU, the United States, and like-minded countries. In addition to techno-nationalist industrial policy programs such as Made in China 2025, Beijing continues to invest substantial capital in semiconductor manufacturing and digital technologies and infrastructure. Its new Five-Year Plan (2021 – 2026) again emphasizes indigenous technological innovation, lowering reliance on foreign technology, and taking the global lead in strategic emerging industries.²³ The CCP reiterated these objectives at the 20th Party Congress in October 2022.²⁴ China is also increasingly willing to weaponize other countries' economic dependence on it, including by using retaliatory sanctions.

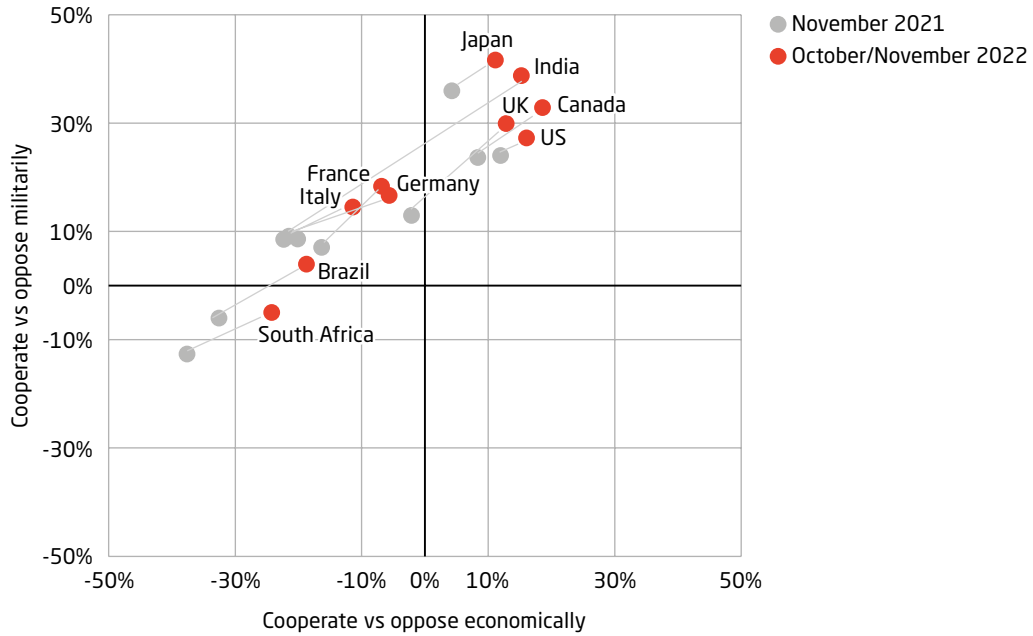
Since the summer of 2021, China has accelerated its efforts to create an advanced domestic semiconductor industry, and it is reportedly working on an additional five-year, \$143 billion support package. China is also reported to be investing \$1.4 trillion by 2025 to build strategic technologies, such as advanced artificial intelligence (AI), facial recognition, quantum, and cloud computing. It has also pledged to translate these technological advances into combat capabilities for the PLA.²⁵

“Preserving our edge in science and technology is not a ‘domestic issue’ or ‘national security’ issue. It's both.”²⁶

Jake Sullivan, National Security Advisor, Special Competitive Studies Project, Emerging Technologies Summit, September 16, 2022

Citizens surveyed have become more willing to oppose China

Q: What do citizens think their country should do in response to the rise of China as a military and economic power; should your country oppose China, or should it cooperate with China?



Note: The illustrated figures are the net of the total percentage for “oppose” minus the total percentage for “cooperate.”
 Source: Munich Security Index 2023 (Munich Security Conference and Kekst CNC)²⁷

Economic security measures are proliferating - with different intensity

Actors unilaterally strengthened defensive and offensive economic security policies

Strong Moderate Weak Under discussion None

	CHINA	US	EU	UK	JAPAN	AUSTRALIA	SOUTH KOREA
Inbound investment screening	Strong	Strong	Moderate	Moderate	Moderate	Moderate	Moderate
Outbound investment screening	Moderate	Under discussion	None	None	Minor (*)	None	Minor (*)
Export controls	Strong	Strong	Strong	Strong	Strong	Moderate	Strong
Procurement restrictions	Strong	Strong	Moderate	Moderate	Moderate	Moderate	Moderate
Sanctions	Strong	Strong	Moderate	Moderate	Moderate	Moderate	Weak
Anti-coercion policy	None	Under discussion	Under discussion	None	None	None	None
Supply-chain resilience policies	Moderate	Strong	Moderate	Moderate	Strong	Moderate	Strong
Data protection and cybersecurity	Moderate	Moderate	Strong	Strong	Strong	Moderate	Strong
Institutionalization	None	None	None	Weak	Strong	None	Moderate
Industrial strategy	Strong	Strong	Moderate	Weak	Strong	Weak	Strong

Note: *Minor restrictions in place for foreign banks, weapons manufacturing, and narcotics, but they are residuals of processes of economic opening and not full-fledged policies to screen outbound investments.

Source: F. Ghiretti, MERICS (2023)

2. Actions Taken by Transatlantic Partners

In the past eighteen months, there has been a sea change when it comes to the steps the United States and the EU have taken individually and in collaboration to manage tech competition and economic security vis-à-vis China.

The United States has adopted a new doctrine: rather than focusing on controlling specific technologies, it is targeting China's capability to design and manufacture advanced technologies. However, its partners and allies, including in Europe, are not yet fully on board with this containment strategy. European governments and leading companies are not keen to slow China's rate of innovation. Nevertheless, the launch of the EU-US TTC in 2021 has led to concrete results, which are outlined below.

“Defensive” measures:

- **Investment screening mechanisms:** In September 2022, the Biden administration reinforced US inbound investment screening by considering specific risk factors like technological leadership, supply-chain dependency, and access to US sensitive data. The EU established a framework on foreign direct investment in 2020 and some member states have implemented their own strong controls. In addition, the United Kingdom bought out China's stake in a nuclear power plant and blocked the sale of a semiconductor plant to a Chinese company. The TTC is starting to coordinate some minor joint action.
- **Export controls:** In October 2022, the Biden administration announced sweeping new limits on the sale of semiconductor technology to China. US companies will no longer be allowed to supply advanced computing chips, chipmaking equipment, and other related products to China unless they receive a special license. Japan and the Netherlands have decided to at least partially join the United States in restricting advanced chipmaking sales to China. The TTC announced in December that the United States and EU will “cooperate on the export controls of sensitive and emerging technologies,” but this coordination is still in its infancy.²⁸
- **5G networks:** The United States has long warned of the security risks that Chinese dominance in 5G technology poses for its allies and partners. Some European countries have moved away from Chinese 5G, the United Kingdom has announced a ban on Huawei components, and the EU has released its Cybersecurity Toolbox of risk-mitigating measures in 5G technology, but implementation of new restrictions has been inconsistent across Europe.
- **Outbound investment restrictions:** The United States is considering reviewing certain outbound investments by US companies in countries like China and Russia if these would help those countries' militaries or enable human rights abuses. A bill to this effect has been introduced in Congress and the White House is considering an executive order. The EU is assessing whether it should also adopt outbound investment limits but few details about this are available. This remains a hotly debated issue in the United States and EU with some arguing that both would lose insight into what China is developing if they stopped investing in Chinese technologies.

“You will always find Europe by your side when it comes to ensuring our common security in technology.”²⁹

Thierry Breton,
European Commissioner
for Internal Market,
CSIS, January 28, 2023

Positive “offensive” measures:

The United States and the EU have separately increased funding for semiconductor fabs and technology R&D, and they are taking minor steps to align ethical standards on AI and quantum technologies, but frictions remain.

- **Increased funding for semiconductors:** In August 2022, President Biden signed the US CHIPS and Science Act. This appropriates \$52.7 billion for incentives over five years for companies that do not manufacture semiconductors in China.³⁰ In 2023, the EU is set to finalize its Chips Act, which will allocate \$44.4 billion to semiconductor manufacturing in Europe.³¹ The US Department of Commerce and the European Commission are planning to share information on subsidies of the respective semiconductor industries.³² However, these efforts may work against one another by increasing the competition between transatlantic semiconductor producers.
- **Increased funding for tech R&D:** The US CHIPS and Science Act earmarks \$170 billion for federal government R&D over five years, particularly in AI, advanced energy, data storage, and robotics.³³ The EU’s Horizon Europe program will use its €95 billion (\$113 billion) budget to direct R&D investments in key technology areas through 2027.³⁴ While these investments represent a massive commitment by the United States and the EU, communication and coordination must improve in order to align priorities and maximize the strategic return on investment.
- **Cooperation on AI standards and quantum:** The United States and the EU recently announced a joint AI roadmap to inform approaches for AI risk management. The goal is to push innovation, operationalize common values, and protect human rights.³⁵ Transatlantic cooperation extends to quantum research, with the TTC announcing plans to set joint standards for quantum research and collaborate on R&D.³⁶

Some progress has been made toward resolving US-European differences, especially on privacy. In October 2022, the United States formally implemented the EU-US Data Privacy framework that was announced by US President Joe Biden and European Commission President Ursula von der Leyen in March 2022, which secures US-EU data flows.³⁷ Yet many areas of disagreement remain. In content management, the EU’s Digital Markets and Digital Service Act will significantly impact US technology companies, and the two sides are not close to resolving their differences on this front.³⁸ In addition, the electric vehicle tax credit included in the IRA favors domestic automakers over European ones, raising hackles in Europe where it was seen as unfairly helping US industry. Finally, the US and EU approaches to human rights and forced labor screening regimes also differ.

“So far the strategy has been to make sure that the newest technology is not exported to China so that Chinese production would be one or two generations behind. If you are much more restrictive as to what you want to export, then I take it as a granted that the Chinese will push on with their own development.”³⁹

Margrethe Vestager,
European Commissioner for
Competition, Foreign Policy,
December 9, 2022

3. Priorities for Joint Action

To keep the lead in key technologies over the next twelve to eighteen months, the transatlantic partners should pursue measures in a number of priority areas.

- **Closing gaps in technology controls:** Both partners have individually made progress on export controls, especially the United States in semiconductors, but efforts to harmonize these are still lagging. If only one country levies controls, this harms the companies in that country and does nothing to slow China’s development of critical technologies. Both sides should work through the TTC immediately to harmonize the definition and scope of narrowly tailored controls.
- **Deepening coordination on investment screening mechanisms** for key “force multiplier” technologies, such as quantum, semiconductors, AI, and dual-use parts of biotech, including to better capture venture capital investments and R&D collaboration with Chinese entities. Any outbound investment screening mechanism would, however, still require serious cost-benefit analysis. The debate in the United States and the EU focus on different types of capital flows and cannot easily be aligned. They should prioritize transparency requirements over hard restrictions.
- **Improving supply-chain security through diversification:** The transatlantic partners should continue to share information on their respective supply-chain risk reviews,⁴⁰ which should include a focus on which sectors are vulnerable or too dependent on China and how to shore them up. In other areas, *ad hoc* coalitions with other producing countries are likely necessary; for example, with Australia on rare earth supplies and with India on pharmaceuticals.
- **Aligning principles on AI governance and ethics:** Ensuring that basic principles govern the breakneck pace of AI development is critical and urgent. The United States and the EU should build on the joint AI standards roadmap the TTC recently announced and move quickly to make these ideas concrete and actionable. Once these are in place, both sides should work quickly to bring others – such as India, Israel, Japan, and the United Kingdom – on board, and eventually also seek to include China.
- **Developing a shared approach to managing the human rights implication of technology:** Tech competition with China is also playing out in developing countries. Chinese offers to build infrastructure like 5G and of inexpensive information technology (IT) products may come at a high price for security and human rights. TTC working groups have begun work on outlining human rights protections in the application and development of technologies,⁴¹ primarily with respect to Russia’s disinformation as used in its war against Ukraine, but this effort is in its infancy.
- **Promoting jointly funded R&D in foundational and emerging technologies:** The United States and the EU have separately increased funding for R&D in critical technologies, including quantum computing, synthetic biology, and the latest semiconductors. What will be key is to coordinate some research to ensure that efforts are not wasted or duplicated, and that each side gets the biggest “bang” for its research “buck.”

- **Aligning approaches on knowledge and research security:** Instead of closing universities to Chinese or other international researchers, like-minded partners should align their tailored risk-management measures to address security threats.⁴² Deep and diverse research entanglements with Chinese academic institutions, including ones that are relevant for civil-military fusion purposes, require more independent and systematic scrutiny. At the same time, it remains important to preserve an open and ethical global knowledge system, especially in basic science and for research on shared global or human challenges. Universities should also be encouraged to ensure bias-free language training including via deeper partnerships with Taiwan, thus ending any reliance on Confucius Institutes.

Chapter 3:
Providing Alternatives on Infrastructure and
Connectivity

Chapter 3: Providing Alternatives on Infrastructure and Connectivity

1. State of Play: BRI and GDI

One fact that has not changed over the past eighteen months is the enormous need for infrastructure investment in low- and middle-income countries around the world, estimated by the World Bank to be in the order of several trillion US dollars a year.

Over the past decades, China has made a significant contribution to address this need. Among other things, China has become a leading provider of digital connectivity and is also well placed to play a key role regarding renewable energy in the future. As great powers before it, the PRC is using the construction of infrastructure to build networks of influence and to project military power, not least through the construction and management of ports.

China's Belt and Road Initiative (BRI), the vehicle for these efforts, was recently reaffirmed at the 20th Party Congress. At the same time, over the past years BRI has changed in a number of ways. While it remains an important element of China's foreign and economic policy, in terms of Beijing's overall narrative it now appears less prominent than was previously the case.

Observers have pointed to several reasons for this change: China's internal economic dynamic, the poor performance of past loans, and reputational issues around BRI projects. Whether well founded or not, the "debt trap" narrative has had an impact on BRI.

With regard to hard infrastructure, China has been downsizing BRI investments (which are said to amount to a total of nearly \$2.3 trillion since 2005).⁴³ BRI lending has dramatically decreased in recent years. With a looming recession, Chinese debt will turn into a major issue for many countries. The space for debt restructuring remains limited (and the case of Zambia where China showed a willingness to engage, remains unresolved at the time of writing, allegedly due to issues on the Chinese side). For Beijing, the coming months and years will be about ensuring existing BRI projects do not fail completely and that new projects do not include excessive risks.

BRI now appears embedded in a comprehensive set of global initiatives including the Global Development Initiative (GDI) and the Global Security Initiative (GSI).⁴⁴ GDI reaches out to multilateral fora where China works to mobilize capital from other actors and share responsibility for projects, potentially using international mechanisms to finance its influence policy and/or bail out projects. In this context, Beijing also uses other tools such as ad-hoc trade concessions.

At the same time, the strategic motivation behind BRI remains powerful. Therefore, questions of financial and economic viability will not necessarily drive Beijing's BRI decision-making.

"Given the progress we have achieved, time is ripe to showcase our offer to the world under a common roof. I'm convinced: The G7 makes a stronger, better, and more convincing offer to partners globally."⁴⁵

Olaf Scholz, Federal Chancellor of the Federal Republic of Germany, Joint Press Conference at the G7 Summit in Elmau, Germany, June 26, 2022

Overall, China’s approach to infrastructure and connectivity is best understood as going beyond building influence in individual countries and regions. Instead, it should be seen as part of a much broader struggle for China’s position in the Global South, to the detriment of and in opposition to Western players.

2. Actions Taken by Transatlantic Partners

The US and EU approaches to issues of infrastructure and connectivity are markedly different from that of the PRC. Needless to say, they are also interest-driven. However, liberal democracies and market economies do not operate based on central control of state and private sector resources. In fact, when it comes to development cooperation, the traditional approach practiced by many European governments consciously keeps development separate from the broader strategic framework.

In the EU, the concept of “connectivity” has been seen as a means to overcome this compartmentalization. Nonetheless, in 2023 the question remains: How can transatlantic and like-minded partners offer infrastructure and connectivity alternatives that can compete with what the PRC offers to the Global South?

Since mid-2021, North America and Europe have made some progress in terms of mobilizing resources and improving coordination. Building on previous connectivity strategies and partnerships, in December 2021 the EU established “Global Gateway” as its framework to contribute to infrastructure development in lower-income countries.⁴⁶ EU institutions and EU member states now talk of jointly mobilizing up to €300 billion for investments in digital, climate and energy, transport, health, and education and research between 2021 and 2027.⁴⁷ In doing so, the EU has highlighted the concept of “trusted connectivity.”

The EU held its first regional conference on connectivity under the Global Gateway strategy in Samarkand in November 2022, just a few weeks after an EU-Central Asia summit in Astana. At the Samarkand conference, High Representative Borrell announced grant funding worth €300 million for bilateral and regional projects in Central Asia.

Regarding Africa, implementation of the €150 billion worth of projects announced at the February 2022 EU-African Union summit has started, including expansion of ports, construction of hydropower projects, and the laying of submarine fiber optic cables. The Commission and EU member states have also defined flagship projects for the Indo-Pacific region that were announced at the EU-ASEAN (Association of South-east Asian Nations) summit in December 2022. Closer to the EU, connectivity projects for the Western Balkans, the Southern Neighborhood, and the Eastern Partnership are contained in the respective Economic and Investment Plans (EIP) for these regions, although these do not appear to involve new money.⁴⁸

On the US side, President Biden hosted the US-Africa Leaders’ Summit in Washington, DC in December 2022 at which the US announced \$55 billion in committed investments over the next three years as well as more than \$15 billion in private trade and investment commitments and partnerships. In a noteworthy development, Biden appointed Amos Hochstein as Special Presidential Coordinator”, highlighting the political importance of infrastructure and creating a mechanism to drive implementation.⁴⁹

“I have come to say that Africa has suffered enough of the burden of history; that it does not want to be the breeding ground of a new cold war, but rather a pole of stability and opportunity open to all its partners, on a mutually beneficial basis.”⁵⁰

———
Macky Sall, President of the Republic of Senegal, Chairman of the African Union, 77th Session of the UN General Assembly, September 20, 2022

Meanwhile, at their June 2022 summit, the G7 launched a new framework called Partnership for Global Infrastructure and Investment with the goal of mobilizing \$600 billion over a five-year period in order “to narrow the global investment gap.”⁵¹ This includes \$200 billion from the US and the €300 billion pledged by the EU via Global Gateway. The German G7 presidency made a point of reaching out to the Global South, inviting heads of state and government of Argentina, India, Indonesia, Senegal, and South Africa to the summit.

Despite these developments, important questions remain about the Western effort to come up with resources and create frameworks for global infrastructure and connectivity. While the overall figures cited sound impressive, it is not always clear how much of these funds were previously programmed. Some observers also believe that the assumptions about mobilizing private sector capital via guarantees are excessively optimistic. They also point to the competition for resources needed to simultaneously finance the post-war reconstruction of Ukraine, which will absorb huge resources.

Commission President von der Leyen continues to see the Global Gateway initiative as a geopolitical flagship project and chaired the first meeting of the board in December 2022. Nonetheless, building momentum for Global Gateway has been difficult given the complex set-up involving EU institutions, member states, financial institutions, and the private sector.

Against this background, many observers believe Global Gateway cannot be successful without the appointment of a top-level figure to ensure implementation and coordination of this ambitious project. He or she would need to be supported by a small but high-powered team focusing primarily on issues of finance. Apart from this, a business advisory group as well as a “Global Gateway Forum” as proposed in the EU strategy still need to be set up. A “one-stop shop” to help the private sector engage with Global Gateway as suggested by EU member states also appears important.

3. Priorities for Joint Action

At the end of the day, transatlantic coordination regarding infrastructure and connectivity is about engaging the Global South and offering real alternatives to the BRI.

There has been progress in terms of creating new frameworks for coordination and mobilizing resources. However, transatlantic partners will be judged by what they deliver in the real world rather than by their announcements. Over the next six to eighteen months, transatlantic partners should prioritize the following actions:

- **Taking flagship projects forward:** Transatlantic partners must demonstrate that they can implement key projects.
- **Using the Partnership for Global Infrastructure and Investment as a framework:** Transatlantic partners should coordinate with like-minded partners, in particular Japan with its proven competence.
- **Mobilizing the EU for action:** The EU should appoint a high-level Global Gateway coordinator to drive implementation and to ensure coordination between EU institutions, member states, financial institutions, and the private sector.

- **Reframing development policy:** Transatlantic partners should, in addition, adjust traditional development approaches and integrate them into an overall strategic effort.
- **Promoting a joint narrative:** Building on the progress of the past eighteen months, transatlantic partners must improve their information campaigns and branding; they should highlight the concept of “trusted connectivity.”

Chapter 4:
Engaging China on Combatting Climate Change

Chapter 4: Engaging China on Combatting Climate Change

1. State of Play: No Oasis in the Desert

China produces nearly a third of the world's annual carbon emissions. Its success in meeting climate targets is a crucial if not the most important factor in the global fight against climate change. Climate change also poses threats to China's long-term prosperity with its population and economic infrastructure, particularly in coastal cities, being heavily exposed to climate risks. Like other governments, Beijing is also facing transition risks in trying to balance climate goals with energy security and development needs.⁵²

According to international and Chinese experts, China is expected to meet its 2030 peak emissions target, while its net zero emission target is 2060. But these targets are considered insufficient to reach ambitious global climate goals. From 2019 to the end of 2021, China was the only major emitter whose domestic emissions increased. Emissions then declined in 2022, largely due to lower energy demand resulting from draconian Zero-COVID policies, a crackdown in the real-estate sector, and overall slow economic activity.

China's energy transition continues to build momentum, but its current set of policies is not fully aligned with long-term goals in the Paris agreement to limit temperature increases.⁵³ China is the world leader in low-carbon technology, with an estimated investment volume of \$260 billion in 2021. At the same time, rapidly growing energy demand offsets much of its advances in renewables, putting in question China's decarbonization targets. As Beijing builds new coal plants and other carbon-intensive infrastructure, and emphasizes again domestic exploration for oil and gas to address concerns about energy security and economic stability, its dependency on carbon-intensive fossil fuels is set to stay, at least in the medium term.

At the same time, hundreds of local-level, firm-level, and sectoral-level peaking plans, as well as national and provincial measures to increase production capacity for clean tech and renewables, create a parallel track of Chinese policy and technological leadership for the global green transformation. Growth in non-fossil energy shares and solar and wind capacity installations will surpass the country's official Nationally Determined Contributions targets. The pledge to stop coal financing announced at the United Nations General Assembly in September 2021 seems to have been broadly translated into action. In August 2022, China launched an ambitious plan to improve nationwide carbon accounting and reporting obligations to further develop its nascent carbon market. Beijing is also making efforts on biodiversity and environmental conservation, including via green finance mechanisms.

The CCP's 20th Party Congress in October 2022, which endorsed President Xi Jinping's vision for the next five years, validated existing commitments but failed to update policy on climate issues. Meanwhile, China is pursuing energy security on multiple tracks, focusing on accelerating the rollout of domestic fossil and renewables production capacity as well as establishing a diverse portfolio for energy imports, including deeper energy cooperation with Russia.

"All nations have a stake in the choices China makes in this critical decade. The United States and China should be able to accelerate progress together, not only for our sake, but for future generations. And we are all hopeful that China will live up to its global responsibility."⁵⁴

John Kerry, US Special Presidential Envoy for Climate, UN Climate Change Conference, COP27 Closing Statement, Sharm El-Sheikh, Egypt, November 20, 2022

The UN Framework Convention on Climate Change Conference of the Parties (COP27) in November 2022 saw limited progress in engaging China, including on “Loss & Damage” (L&D) as well as regarding new efforts around reducing methane emissions. Beijing’s real multilateral contributions in those fields are yet to be defined. At this point it looks as if China essentially refuses to become part of any serious conversation on L&D, despite its significant cumulative greenhouse gases emissions.

Climate change was once described by Chinese actors as an “oasis in the desert,” meaning that it was still one area of cooperation that was independent from conflictual issues. However, it has become evident that this is no longer the case for Beijing. Overall, trust between China and the United States remains low, while EU-China cooperation is unable to develop new momentum. After Washington recommitted to the Paris agreement under President Biden, China and the United States issued a joint declaration at COP26, which substantially contributed to the successful negotiation of the Glasgow climate pact. When political tensions peaked as Speaker of the House of Representatives Nancy Pelosi visited Taiwan in August 2022, China initiated a short-term halt of climate talks. Talks were re-established at COP27 after the Biden-Xi meeting on the sidelines of the November G20 meeting, but whether essential technical cooperation will be relaunched remains to be seen. Overall, China and the United States engaging on climate still risks being affected by their deep strategic competition and rivalry in other arenas.

Even though cooperation between the EU and China has been less directly impacted by geopolitical events so far, tensions are rising. There has been a lack of concrete actions following the agreement between the two sides at COP26 on a Common Ground Taxonomy for green finance. The third EU-China High-Level Environment and Climate Dialogue in July 2022 seems to have consisted of mainly a presentation of respective positions rather than a substantive exchange. Engagement is also increasingly shaped by competitive dynamics and concerns about dependencies, as both sides try to gain advantages in the green tech race by securing and diversifying critical inputs, setting industry standards, and introducing tariffs on CO₂-heavy imports.

2. Actions Taken by Transatlantic Partners

Transatlantic cooperation on climate and environmental matters, including to engaging China on a more coordinated basis, has not advanced much over the past eighteen months, despite a strong alignment of ambitions and incentives. This is particularly frustrating as both sides have been ramping up their environmental efforts and tools, and have experienced the limited eagerness of China to engage substantively.

Advanced economies including the United States and the EU are effectively engaged in a full-fledged “green tech race” to respond to China’s “clean tech” industrial policy. They are first testing and deploying reshoring measures while conceptualizing “club” arrangements not only to create upward convergence but also to limit dependencies in strategic sectors.

The climate- and greening-related items of the EU-US TTC have not produced any outcomes beyond a recent announcement to discuss “sustainable trade” and talks are reportedly slow. Other bilateral and plurilateral exchange frameworks have also yet to move beyond shared intentions.

“Our planet is still in the emergency room. (...) We need to drastically reduce emissions now - and this is an issue this COP did not address. The world still needs to make a giant leap on climate ambition.”⁵⁵

António Guterres,
UN Secretary-General,
UN Climate Change
Conference, COP27,
Sharm El-Sheikh, Egypt,
November 20, 2022

The TTC discussions on emissions statistics in May 2022 and China advancing a plan for a unified carbon accounting system in August 2022 show the potential for developing and aligning such methodologies between these three actors. The United States and EU reaching common ground and fulfilling deliverables on this issue would be a step forward, potentially affecting negotiations with China. The lack of a national ETS on the US side, due to domestic political opposition, does not send a signal of transatlantic unity toward China.

A project to cooperate toward a form of climate club was initiated under the G7 after the June 2022 summit but it has petered out. The discussions launched more than a year ago on a Global Arrangement on Sustainable Steel and Aluminum have not made any significant progress so far. If pursued successfully, they would essentially lead to a “sectoral climate club” driven by industrial policy (and related domestic interest and lobbying groups), initially not meant to include China.

Unilateral policies and measures by the EU and United States will not only push “clean tech” issues even deeper into competitive territory for the transatlantic relationship; they are also likely to have far-reaching implications for engagement with China. EU measures such as the Battery and Raw Materials Alliance as well as the pending Critical Minerals Act have the potential to change the premises of EU-China relations in these fields. Renewed industrial policy efforts heavy on subsidies, such as the IRA, as well as responses by the EU and China might have some positive implications for the global availability and pricing of climate technologies. They are also likely to complicate more negotiated coordination among the three sides.

The same is true for the EU’s forthcoming anti-deforestation instrument, due-diligence regulations, and new trade policy approach including sustainability provisions and sanctions-based enforcement. The EU’s CBAM is also in its final legislative phase, with reporting obligations for importers starting to apply from October 1, 2023, and even stronger effects on trade to be expected after a review in 2027. The EU is also issuing a flurry of regulations, including the EU Supply Chain Act that will condition access to the EU single market based on environmental standards, for instance with regard to batteries and textile.

3. Priorities for Joint Action

Attempting to meaningfully influence the trajectory of China on climate change would require the United States and the EU going “all in on Paris” and dramatically ramping up their climate action. It remains the best solution, but the EU and the United States are so far failing to engineer global upward convergence through model behavior. It also comes with risks for transatlantic unity as the paths pursued by each side would have wide-ranging effects on partners.

US-EU joint leverage is the next-best alternative. This would require creating a true alliance containing aligned agreements on specific standards, with market-/industry-wide implications, that push China to adjust its domestic practices. At the same time, Beijing would have to pay for damages incurred by climate change and make transition finance available at conditions and volumes that shift away from its “development first” offers to the Global South.

“I will be advocating for China to join us in taking on more responsibility still for protecting the climate, not least at international level. We are aware that we are in competition when it comes to climate-friendly technologies, too.”⁵⁶

Olaf Scholz,
Federal Chancellor of the
Federal Republic of Germany,
Politico, November 3, 2022

Such a true alliance for climate neutrality would require a common border adjustment; a transatlantic trade zone for climate neutrality; the expansion of hydrogen infrastructure, battery recycling, and loading infrastructure of electric mobility; a dramatic buildup of renewables capacity (depending on Chinese suppliers); and institutionalized mechanisms and working groups at the ministerial level.

As long as critical roadblocks remain, including the lack of a carbon price in the United States, the TTC is currently the most promising platform for negotiating more pragmatic transatlantic climate cooperation and it should be prioritized as a first step. Concrete further steps for action include:

- **Deepening exchanges on avoiding domestic efforts toward more environmental protection being derailed by negative spillovers and resulting in bilateral frictions.** This would include some kind of damage control on critical IRA provisions (“waivers”) and would ensure minimal US-EU alignment vis-à-vis China as well as substantiating the “friend-shoring” idea. Exemptions in import regulations for green technology would strengthen transatlantic unity and competitiveness vis-à-vis imported green tech equipment from China. Advancing swiftly with the transatlantic initiative on sustainable trade to decarbonize energy-intensive industries and help with the transition to more circular economies could anchor US-EU collaboration.
- **Ensuring that China’s carbon neutrality target is genuine.** Ongoing monitoring of its validity and holding China to this will significantly influence prospects for cooperation and should be an item on the agenda for the EU and the United States.
- **Expanding alignment on Loss & Damages** based on COP27 procedures, including the establishment of a task force to decide the classification of countries, including incurring rights and obligations. China needs to be sufficiently represented in this task force so that the global major emitters can agree on the basics before the L&D fund terms are adopted at the COP28 at the end of 2023 (and later operationalized at COP 29.)
- **Closing the gaps between methodologies for carbon accounting.** CO₂ pricing debates between the United States and the EU, in particular on an ETS, are underdeveloped and need to be moved to a higher level. Advancing debates on an ETS, and more broadly on carbon pricing, between the transatlantic partners could catalyze efforts to transition China’s ETS away from an intensity-based cap to a fixed cap.
- **Aligning procedures on environmental standards** for a broad set of products, encompassing “green labels” for some energy sources, minerals (mining) and gases such as hydrogen or methane. China announced its national methane reduction plan at the COP27. This is significant for transatlantic cooperation, especially given the United States’ Global Methane Pledge (which China did not join.) Supporting actions to reduce methane could be one promising avenue for positive interactions with China.
- **Building on the December 2022 UN Biodiversity Conference (COP15) in Montréal,** which China chaired and was widely considered a success. Creating a framework for sharing information and best practice, possibly considering common standards for sustainable woods and forest, which could be an area of potential cooperation with China.

“The aim will be to focus investment on strategic projects along the entire supply chain. (...) We will especially look at how to simplify and fast-track permitting for new clean tech production sites.”⁵⁷

Ursula von der Leyen,
European Commission
President, World Economic
Forum in Davos, Switzerland,
January 17, 2023

“No matter how much the external environment changes, and no matter how many challenges we face, China has firm determination to achieve this vision of carbon neutrality.”⁵⁸

Xie Zhenhua, Chinese Climate
Envoy, UN Climate Change
Conference, COP27,
Sharm El-Sheikh, Egypt,
November 11, 2022

Chapter 5:
Setting the Agenda in International
Institutions

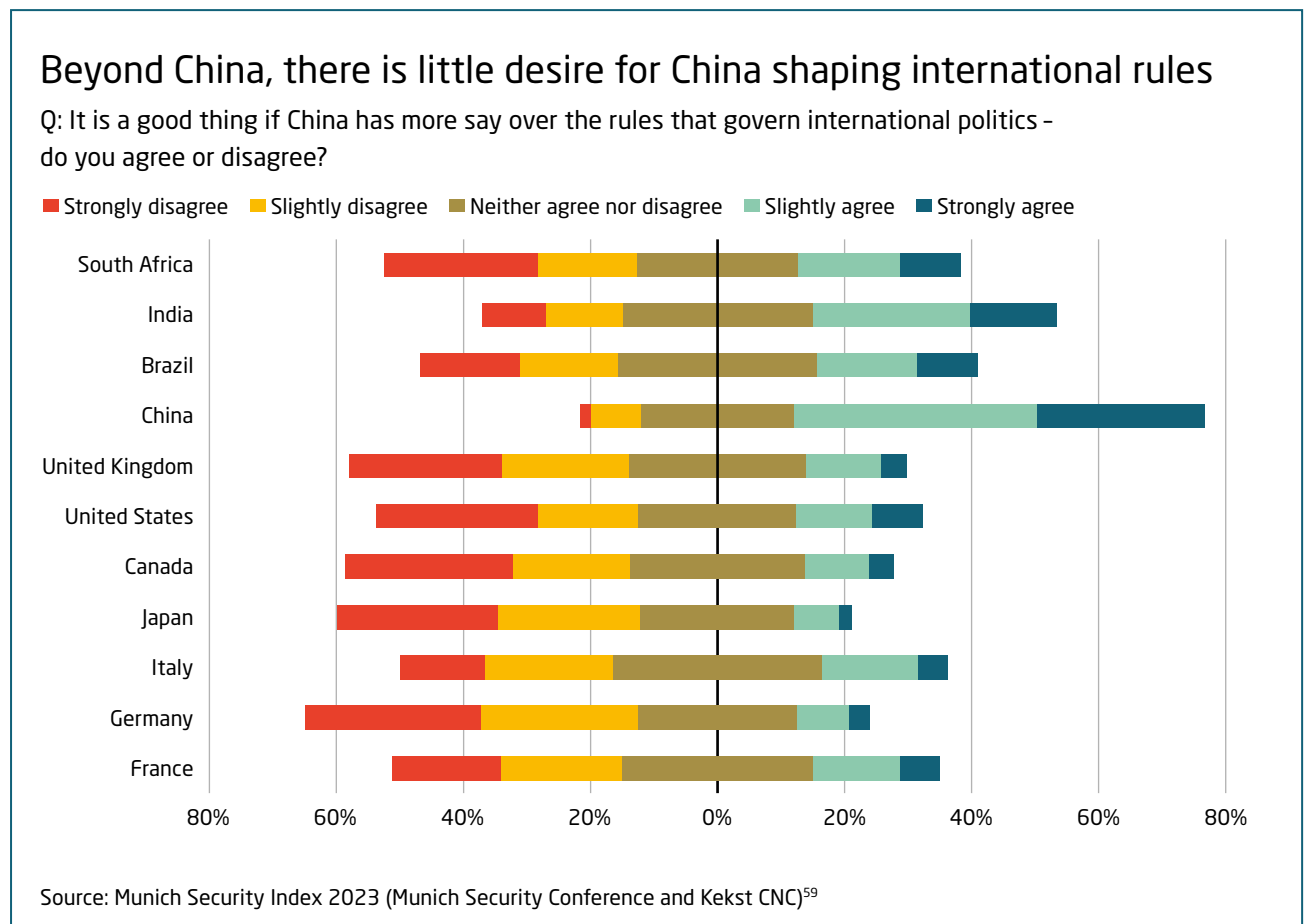
Chapter 5: Setting the Agenda in International Institutions

1. State of Play: Making Multilateralism and International Institutions China-Proof

Like other major global crises, Russia's war against Ukraine is not just a test for the relevance and resilience of global multilateralism. It is also a moment of truth regarding the preferences, priorities, and alignment of governments across the globe, including China's, as they play out in international institutions. For the transatlantic partners, Beijing's response to the war and its alignment with Moscow have significantly increased concerns about its interests and its ability to leverage global institutions to defend or advance them. The relatively high degree of coordination for like-minded responses to Russia's aggression is likely to have increased distrust in Beijing as to how international institutions can be used against rogue players if needed.

China abstained in three out of the four United Nations General Assembly (UNGA) resolutions concerning the war in Ukraine and its consequences for Russia. It voted against an order of the International Court of Justice and resolutions to suspend Russia's membership in the UN Human Rights Council. The votes in the three Ukraine-related UNGA resolutions that China abstained in were remarkably similar, with 140 to 143 countries voting in favor and just five against. This was partly the result of strong, coordinated transatlantic lobbying.

Exhibit 5



Overall, China's influence within the UN system continues to increase as it leverages its growing financial contributions and the high positions held by Chinese nationals to shape agendas and influence decisions on issues ranging from Taiwan's participation in multilateral bodies to tech standards. Greater attention is being paid to this issue, however, and there is closer coordination between the EU and the United States to counter Beijing's efforts in this space. Today, China heads only one out of the 15 UN specialized agencies, namely the Food and Agriculture Organization with Qu Dongyu as its director general, after Zhao Houlin's term as secretary general of the International Telecommunication Union (ITU) ended in October 2022. At the same time, the representation of Chinese nationals in the UN system continues to grow.

The past year saw the continuation of Beijing's attempts to reinterpret certain global norms and UN resolutions to its benefit. These include arguing that the UN Charter supports its position vis-à-vis Russia's invasion of Ukraine and distorting UN Resolution 2758 to spread the fallacy that UN member states accepted China's "one China principle" and that therefore Taiwan has no right to participate in the UN. Beijing also continues to try to inject its own language into the UN. Concepts such as the "right to development" or the "community of shared destiny for mankind" are used as strategic tools to advance its interests by gradually giving authoritarian principles more sway and greater acceptance and incorporating them into the global order.

Outside the UN system, China expands and strengthens the platforms and coalitions of countries that align with its interests in contesting elements of the current rules-based international order, and it promotes its alternative vision for it. Two key China-centered alternative institutions, the BRICS, and the Shanghai Cooperation Organization (SCO) have expanded in 2022 with the BRICS+ process gaining traction and Iran signing on to the SCO.

President Xi Jinping launched two new efforts in 2022 that give the clearest indications of China's leadership ambitions for shaping global governance. The Global Security Initiative (GSI) and the Global Development Initiative (GDI) complement the BRI and the Global Data Security Initiative (GDSI).

These new initiatives remain in their initial stages. For now, they are likely to be operationalized through small groupings and alternative multilateral organizations that China controls. The GDI and GSI were heavily promoted at the latest Forum on China-Africa Collaboration, BRICS, and SCO summits, and they were even mentioned at the latest G20 summit. Leveraging its influence at the UN and the apparent linkages between the GDI and the Sustainable Development Goals, Beijing has also set up a Group of Friends of the GDI at the UN, which so far includes around 60 countries. It is also leveraging its influence at the UN Industrial Development Organization to engineer support for the GDI.

Together with the BRICS, the SCO, and other regional efforts, China's global initiatives are meant to promote Beijing's vision for an alternative global order, help it build coalitions of Global South countries to advance principles and norms in line with its illiberal and authoritarian domestic governance system, and create counterweights to the G7 and other "Western" clubs.

"All told, the US holds a strong hand. But if it succumbs to hysteria about China's rise or complacency about its 'peak', it could play its cards poorly. Discarding high-value cards - including strong alliances and influence in international institutions - would be a serious mistake."⁶⁰

Prof. Joseph Nye, Jr.,
Professor at Harvard
University and former
US Assistant Secretary of
Defense, The Korea Times,
January 12, 2023

As a result of heightened geopolitical tensions, cooperation with China on global public goods and stability has not improved in the past eighteen months. China sent a low-level representation to the UN Framework Convention on Climate Change Conference of the Parties (COP27) in November 2022, where it made no significant new commitments on its climate targets (see chapter 4). On global health issues, even the World Health Organization publicly criticized China's lack of transparency on its COVID-19 management in December 2022. Beijing also remains a reluctant counterpart to joint efforts to restructure the debt of developing economies, with only little progress being made on the issue. On the positive side, Beijing's leadership on global biodiversity in 2022 was generally considered a relative success. Reflective of the current difficulties to reach agreements with China, transatlantic partners were satisfied with the G20 statement in Bali in November 2022 in which "most countries" condemned Russia's war in Ukraine – and China not fully blocking such an outcome.

"At least since China's failure to condemn the Russian attack on Ukraine, we must conclude that China under Xi Jinping is a global power that intends to shape world politics in its own interests."⁶¹

Social Democratic Party of Germany, SPD International Politics Commission, January 20, 2023

2. Actions Taken by Transatlantic Partners

The past eighteen months have generally seen growing transatlantic coordination on matters related to China's influence in international institutions. The EU-US Dialogue on China was launched with a first high-level meeting in May 2021 and it includes a working group on multilateralism. Similarly, the EU-US TTC, via the Strategic Standards Information mechanism, should enable deeper cooperation to help shape global standards at international institutions, including in the ITU.

Within the UN system, the transatlantic partners have increased their coordination to lobby Global South countries ahead of key votes at the UNGA and other UN bodies. They have successfully aligned with non-US/EU-led efforts; for instance, to circumvent obstruction by China and Russia on advancing a UN convention to prevent crimes against humanity. The United States and Europe have also improved coordination to jointly contest elections for UN agency leadership positions rather than competing with each other. During the October 2022 elections to replace the ITU's outgoing Secretary General Zhao Houlin and the rest of the organization's leadership, for instance, the EU supported the United States's pick for the position and Washington backed Brussel's pick for that of deputy secretary general, which enabled these candidates to win the election against a Russian candidate who had China's support.

The transatlantic track record remains mixed, though. Despite securing global support for the Declaration on the Future of the Internet, for instance, the United States and the EU still struggle to meaningfully advance in their bilateral relationship on data-privacy standards and regulations. This in turn prevents them from pushing back against China's new data regulations and governance frameworks, which Beijing is likely to try to promote across the developing world. WTO reforms remain a point of divergence too. While Washington and Brussels share concerns over China's commercial practices and unfair competition, and over the organization's ability to tackle these issues, they still disagree on its future role, contributing to the process being stalled (see chapter 1).

3. Priorities for Joint Action

The EU and the United States see China as a “systemic rival” and international institutions as a critical arena for strategic competition with it. Building on past achievements, transatlantic efforts should be directed at:

- **Preparing to confront greater coordination between China and Russia in multilateral organizations** if they continue to jointly push back against what they see as a Western/US-dominated global order and attempt to rewrite the rules underpinning it.
- **Minimizing long-term damage for existing global regimes caused by action to restrict Russia’s (or China’s) room for maneuver.** For instance, the use of SWIFT-related sanctions against Russia means that China will lead more efforts by the BRICS+ and others to establish alternatives and to reduce their vulnerabilities.
- **Monitoring and sharing information on China’s new global initiatives like the GDI, the GSI, and the GDSI.** The transatlantic partners need to coordinate on the best ways to limit appeal of these across the Global South, including by coordinating, accelerating, and improving the rollouts of the Global Gateway and Build Back Better World initiatives.
- **Preventing the building of blocs around the BRICS+ and the G7 where feasible.** The transatlantic partners need to increase their outreach to the Global South, the BRICS+, and the SCO members, which are the main targets of China’s campaigns to build a coalition of countries meant to contest the current global order. They should deprioritize the “democracies vs. autocracies” narrative, thus allowing for joint action with key partners beyond their like-minded friends.
- **Contesting China’s norm- and standard-setting efforts in international organizations,** especially when it comes to new or frontier domains such as the internet and cyberspace, outer space, and the arctic. The transatlantic partners must articulate a clearer joint vision for specific arenas of global governance building; for instance, on the model of the Declaration on the Future of the Internet.
- **Continuing to coordinate mechanisms to avoid competing against each other in international organizations,** in particular in leadership elections at UN agencies. The transatlantic partners should select joint candidates able to build coalitions and withstand China’s (and Russia’s) pressure.

Chapter 6:
Preserving Liberal Society and Promoting
Human Rights

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1. State of Play: Strategic Authoritarianism on the Rise

The CCP's continued assault on human rights and democratic values undermines its global appeal and threatens the political and economic interests of transatlantic partners. In this regard, little has changed over the past eighteen months.

Under Xi Jinping's leadership, the CCP has put strong emphasis on ideology and increased its tight control over the society and the economy. There has been no letup in terms of internal repression (including digitally), with massive human rights violations, potential genocide, and crimes against humanity, especially with regard to the treatment of ethnic minorities in Xinjiang, Tibet, and Inner Mongolia. Forced labor is one of the most salient issues.⁶² Social and economic stress inside China may build due to a number of factors, as the protests over China's COVID restrictions in late 2022 underscore. But the Party appears firmly in charge. At the same time, by not allowing for transparency amid its COVID surge, China has again shown itself to be highly negligent of its international responsibilities.

Following a visit to China by UN High Commissioner for Human Rights Michelle Bachelet, her office published a report in August 2022 which described the extent of arbitrary detentions against Uyghurs and others as potential crimes against humanity. The PRC mobilized its supporters and demonstrated its power by blocking a discussion of the report at the Human Rights Council in October.

Working closely with Russia and Egypt as well as a broader group of "like-minded developing countries," China has been able to deflect criticism of its human rights abuses. China also continues to engage in a broader effort to transform the definition of what constitutes human rights, e.g., by highlighting the importance of national sovereignty and elevating state-determined collective rights over notions of inalienable individual rights. In addition, Beijing has worked to establish "internet sovereignty" as an international norm allowing for data localization requirements, thereby imposing limits on freedom of speech and violating data privacy.⁶³

PRC efforts in this regard are underpinned not only by a systematic effort to set global standards through relevant international organizations, but also by technology players such as Huawei which has been a key enabler of 4G and 5G digital infrastructure in the Global South. Chinese technology has provided the basis for state-of-the-art surveillance and censorship in the Global South and beyond. TikTok is another problematic Made in China tool, serving not only as a video platform but increasingly as a shaper of news with huge appeal among the Gen Z demographic all over the world.

Through various channels, the CCP has continued its strategic influence operations in Europe and North America. In 2022, media reported on the presence of Chinese so-called "overseas police stations" in continental Europe, the United Kingdom, and the United States. Established by the Ministry of Public Security, these police stations are allegedly used to monitor persons and organizations criticizing China and, in some cases, to harass and attack critics with a view to shutting down discourse. They may

"We do not seek to transform China's political system. Our task is to prove once again that democracy can meet urgent challenges, create opportunity, advance human dignity; that the future belongs to those who believe in freedom and that all countries will be free to chart their own paths without coercion."⁶⁴

Antony J. Blinken,
US Secretary of State,
The George Washington
University, Washington, D.C.,
USA, May 26, 2022

also serve as an example of how the CCP uses supposedly legal means to undermine the rule of law and sovereignty in Europe and North America.

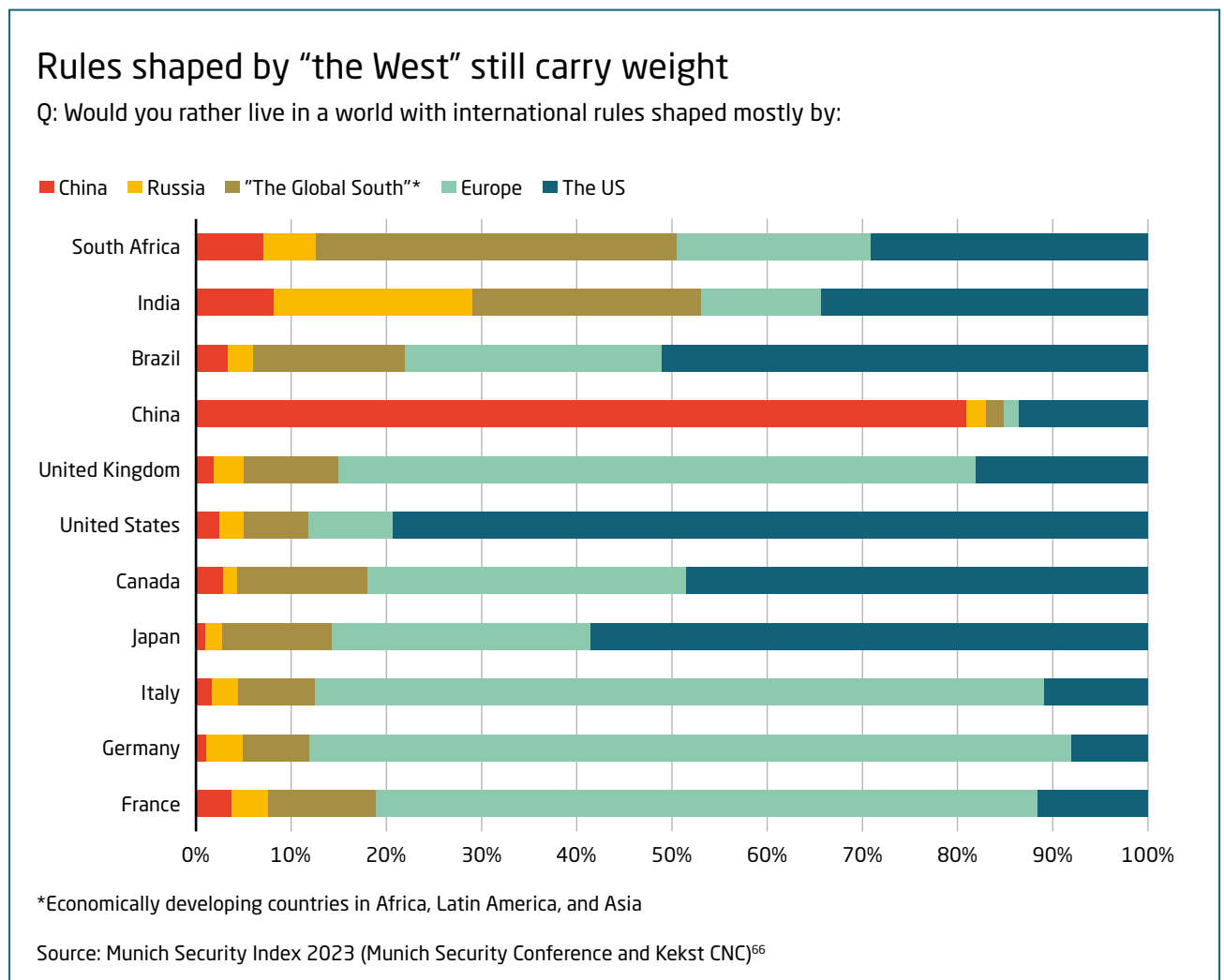
Overall, in the words of the 2022 US NSS, China has been “actively undermining the democratic political processes of other countries, leveraging technology and supply chains for coercion and repression, and exporting an illiberal model of international order.”⁶⁵

2. Actions Taken by Transatlantic Partners

On the US side, the most important development since 2021 was the decision of the Biden administration to return to relevant UN bodies and international organizations, and to engage with partners and allies as well as the Global South. In December 2021, the United States passed the Uyghur Forced Labor Prevention Act (UFLPA) aimed at preventing the importation of forced labor products.

In Europe, awareness of the gravity of the human rights situation in China has grown and there is a better understanding of Chinese efforts to influence and/or coerce Western societies and political systems. Among EU institutions, the European Parliament has continued to play a key role and has regularly put Chinese human rights violations on its agenda.

Exhibit 6



During the 2022 State of the Union Address, Commission President von der Leyen announced she would present a “Defence of Democracy” package in order to target foreign influence such as disinformation and elite capture. Moreover, Commissioner Dombrovskis introduced a proposal for an EU-wide ban of forced labor products, which would echo US legislation.

Regarding 5G, the picture in Europe is mixed. Key European governments, including France, Sweden, and the United Kingdom have closed the door on Huawei, but a number of EU member states have not. In Germany, questions remain about implementation of the legislation adopted by the Bundestag in April 2021 and the future of Huawei components in the German digital infrastructure.

In the case of Canada, Ottawa’s handling of China’s arbitrary detention of Michael Kovrig and Michael Spavor stands out. After Canada arrested Huawei Chief Financial Officer Meng Wenzhou on a US extradition warrant, the PRC effectively took the two men hostage and imposed informal trade sanctions and other measures to blackmail Ottawa to intervene politically and release Meng. Despite the harsh detention conditions and psychological torture to which the two men were subjected, Ottawa refused to capitulate, instead urging the United States and China to resolve the Meng case through negotiations. Sino-American talks eventually led to the simultaneous release of Meng and the two Canadians in September 2021. In February 2021, Canada launched the Declaration Against Arbitrary Detention in State-to-State Relations, which now has seventy signatories.

The issues being considered here were part and parcel of transatlantic coordination that took place in the framework of the US-EU High-Level Dialogue on China. During the most recent session in December 2022, the two sides exchanged views on the human rights situation in China and expressed concern about Beijing’s “transnational repression tactics.” The US-EU TTC with its ten working groups has been an equally important forum to address issues with a bearing on protecting liberal society. While China is rarely referenced specifically in TTC statements, much of the conversation relates to countering Beijing’s policies, such as joint efforts around the provision of trusted Information and Communication Technology (ICT) suppliers in third countries.⁶⁷

The G7 has also been a useful format, not least because with Canada, Japan, and the United Kingdom, it brings three important players to the table who are not included in EU-US formats.⁶⁸ Seeking to build an even broader coalition, President Biden took the initiative to bring together leaders from over 100 countries for a first Summit for Democracy in December 2021. The intended message was that many states are ready to defend the liberal international order. The December 2021 summit initiated a “year of action” to “build more resilient democracies, combat corruption, and defend human rights.”⁶⁹ The second summit will take place in late March 2023 and will be co-hosted by President Biden along with the leaders of Costa Rica, the Netherlands, the Republic of Korea, and the Republic of Zambia, highlighting the effort to bring the Global South on board.

Anti-corruption is another area where transatlantic partners have made progress. Last year, the United States and Europe took steps to tackle Russian corruption in their societies, providing a solid foundation from which to expand and broaden these efforts.

“The extent of arbitrary and discriminatory detention of members of Uyghur and other predominantly Muslim groups (...) may constitute international crimes, in particular crimes against humanity.”⁷⁰

Office of the UN High Commissioner for Human Rights, OHCHR Assessment of Human Rights Concerns in the Xinjiang Uyghur Autonomous Region, People’s Republic of China, August 31, 2022

3. Priorities for Joint Action

In short, the United States and the EU are increasingly aligned on the need to counter Chinese threats to liberal society and human rights. However, what is still missing is a more strategic approach and, in some areas, moving from analysis to action.

Over the next six to eighteen months, transatlantic partners should prioritize the following measures:

- **Taking a stand against human rights violations in international fora:** Transatlantic partners should coordinate action in international organizations, reach out to the Global South, and make best use of G7, G20, and OECD formats as well as the Summit for Democracy.
- **Countering Chinese digital authoritarianism:** Transatlantic partners should improve coordination on export controls of relevant technology. They also need a concrete strategy to provide both trusted technology and political capacity-building to interested countries.
- **Developing a comprehensive approach toward influence operations, political interference, and economic coercion:** A coordinated approach with pooled resources will be a far more powerful deterrent to China and will encourage third countries to resist PRC pressure.
- **Strengthening anti-corruption measures:** Transatlantic partners should improve coordination and align legislation, also making use of the Summit for Democracy's specific focus on combating corruption.
- **Fighting forced labor:** Transatlantic partners should align their efforts and reach out to like-minded countries to prevent the importation of products made with forced labor. The EU should echo the US UFLPA by adopting legislation as introduced by Commissioner Dombrovskis in September 2022.

Chapter 7:
Maintaining a Balance of Power for a
Free and Open Indo-Pacific

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1. State of Play: Tensions Rising

America plays the key part when it comes to maintaining a balance of power in the Indo-Pacific. But Europe and Canada cannot be indifferent on this matter. Given the importance of their economic interests in the region and their support for the rules-based order, all transatlantic partners have a stake in ensuring that China is not able to create, in the words of the 2022 US NSS, “an enhanced sphere of influence in the Indo-Pacific.”⁷¹

Military strength and nationalism continue to be central to President Xi’s agenda as evidenced by the 20th Party Congress. Beijing has continued its buildup of the PLA, enhancing its military capabilities at remarkable rates, including engaging in an ambitious expansion of its strategic nuclear arsenal and a growing capacity for power projection.⁷²

While short of all-out support, China’s political backing for Moscow’s war of aggression against Ukraine has consolidated the relationship between these two revisionist powers. How Russia conducts the war is no doubt studied carefully by Beijing. It is unclear what conclusions are being drawn, but we can safely assume that the goal of reunification with Taiwan remains unchanged. While there are different views as to whether Beijing has a timeline for possible action against Taiwan, whether that timeline has changed, and how much progress the PLA has made in working toward its capability goals, there is mostly consensus that Beijing hopes to have the ability to successfully invade Taiwan (even in the face of US resistance) by 2027.⁷³

Preparing for such a scenario requires urgent and focused action by the United States as well as Taiwan, Japan, and Australia, among others, now and going forward. Moreover, there are many measures below the level of an all-out invasion or blockade that would pose severe challenges.

While China has been building up its capabilities, some observers as well as senior US military leaders have voiced concerns about the overall viability and credibility of US deterrence in the Indo-Pacific. They have questioned whether Washington has provided sufficient military and economic resources in the face of the Chinese challenge and have called for a reconfiguration of America’s military posture in the region.⁷⁴ Some critics have argued that US assistance to Ukraine is reducing the level of support that America can extend to Taiwan and that Europe must take on a larger role in backing up Kyiv.⁷⁵

China’s military build-up and its policies have led to closer security cooperation among Indo-Pacific nations and with the United States. They have also contributed to an increase in defense spending across the region.⁷⁶ In what has been described as a transformational move, Japan in December 2022 announced a major increase in defense spending as well as significant policy shifts including the development of counterstrike missile capabilities.⁷⁷ In January 2023, the United States and Japan announced that an additional unit of US Marines would be stationed on Okinawa. Also in January, the United Kingdom and Japan signed a mutual defense agreement, and the government in Manila agreed to provide the United States with expanded access to key bases in the Philippines.

“I myself have a strong sense of urgency that ‘Ukraine today may be East Asia tomorrow.’”⁷⁸

Kishida Fumio, Prime Minister of Japan, IISS Shangri-La Dialogue, June 10, 2022

At the same time, tensions in the Taiwan Strait have grown as a result of aggressive PRC actions (including military exercises around Taiwan and firing missiles over the island and into Japan’s exclusive economic zone after Speaker Pelosi’s visit in August). It has become even more evident that the future of Taiwan will be key for the region and beyond.

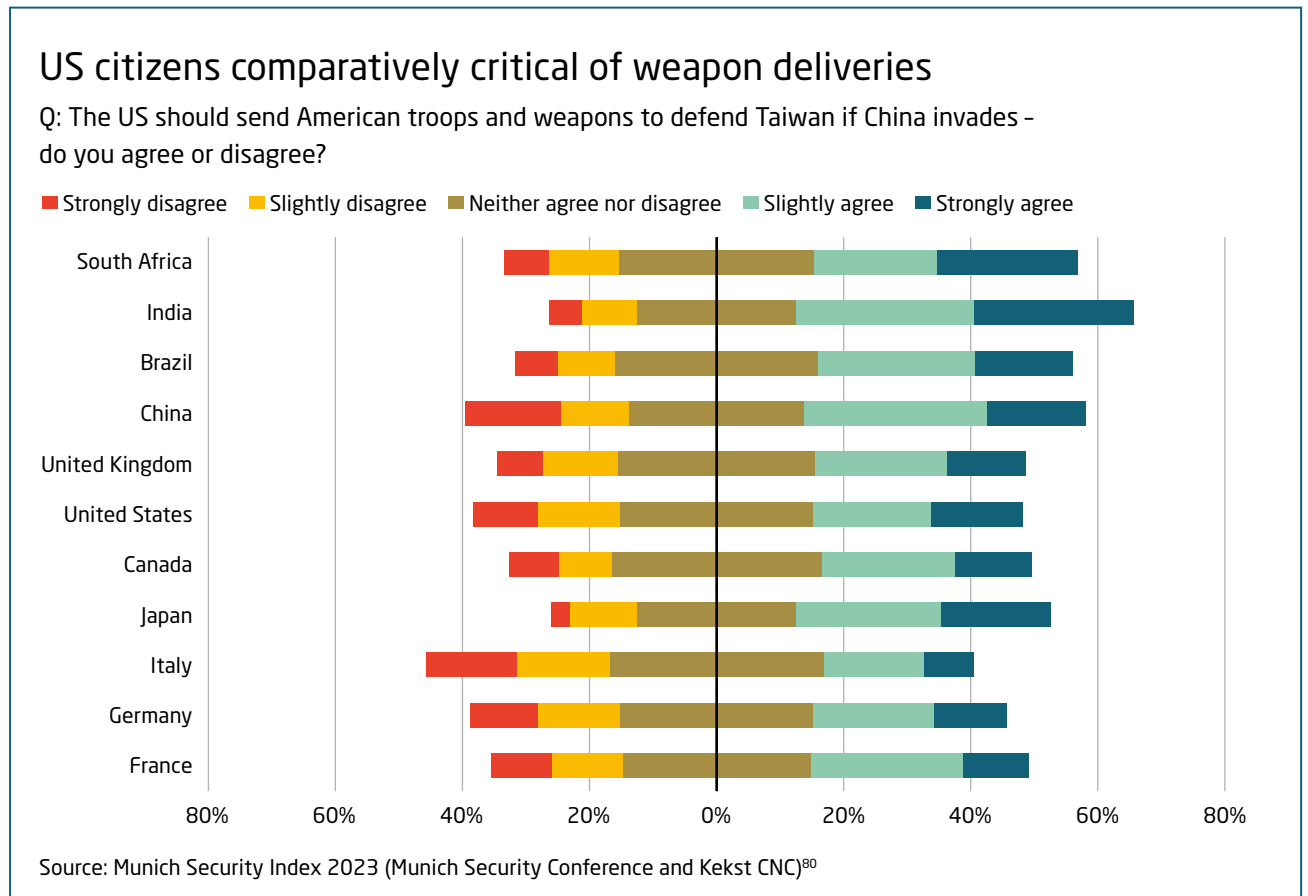
Looking ahead, the single most important challenge will be to prevent war between the PRC and Taiwan, the consequences of which would dwarf the global economic fallout of Russia’s war against Ukraine. A key question is how credible deterrence against attack and other forms of serious coercion can be maintained and how Europeans and Canadians can contribute to this.

2. Actions Taken by Transatlantic Partners

Over the past eighteen months, Europeans and Canadians have significantly increased their focus on security in the Indo-Pacific, although so far much of this remains in the rhetorical sphere. Strategy documents such as the EU’s 2021 Indo-Pacific Strategy and its 2022 Strategic Compass highlight the importance attributed to the region. A number of nations, including Germany, are working on “China strategies” and several have adopted strategies on the Indo-Pacific.

In its Indo-Pacific Strategy, Canada describes China “as an increasingly disruptive global power” and states that Ottawa will work with partners “to push back against any unilateral actions that threaten the status quo in the Taiwan Strait, as well as the East and South China Seas.”⁷⁹

Exhibit 7



In September 2022, a Canadian frigate sailed through the Taiwan Strait alongside a US destroyer. European nations have also increased their maritime presence in the region and participated in exercises (including the deployment of a UK aircraft carrier group in 2021 and 2022 and a significant German Air Force participation in Australia's 2022 "Pitch Black" exercise). France maintains a permanent maritime presence in the region due to its territories in the South Pacific.

Three years after NATO first referenced China in a public document, the alliance's new Strategic Communiqué of June 2022 described China as a key challenger and stated:

"We will work together responsibly, as Allies, to address the systemic challenges posed by the PRC to Euro-Atlantic security and ensure NATO's enduring ability to guarantee the defense and security of Allies. We will boost our shared awareness, enhance our resilience and preparedness, and protect against the PRC's coercive tactics and efforts to divide the Alliance. We will stand up for our shared values and the rules-based international order, including freedom of navigation."⁸¹

In the months since, China has been a regular feature on NATO's agenda, with a focus on PRC challenges in the Euro-Atlantic area but also looking at issues traditionally considered outside the remit of the alliance. During his visit to the region in late January/early February 2023, Secretary General Jens Stoltenberg stated that transatlantic and Indo-Pacific security were now "deeply interconnected."⁸²

The G7, too, showed increased engagement. When the PRC reacted to Speaker Pelosi's August visit to Taiwan by conducting military exercises around the island and firing missiles, the foreign ministers of the G7 issued a pointed statement expressing concern and opposing unilateral changes to the status quo by force.⁸³ European engagement with Taiwan also saw a marked increase, with members of parliament as well as government representatives undertaking visits to Taipei and Petr Pavel speaking to President Tsai Ing-wen following his election as president of the Czech Republic. While these contacts illustrate that the importance of the island is now widely understood, European support to Taiwan is so far mostly in the realm of moral and political support.

Meanwhile in the United States, the debate on prioritization of the Indo-Pacific continues. For more than a decade, US policymakers have spoken about pivoting (or rebalancing) to the region and this idea once again features prominently in the 2022 NSS. In reality, Washington has struggled to give priority to the Indo-Pacific in terms of policies and resources.⁸⁴ Many observers saw the 2023 NDAA as another manifestation of this given that it extends loans to Taiwan rather than the grants originally foreseen for Foreign Military Financing. Meanwhile the US government gave more than \$100 billion to Ukraine in 2022 including a whole series of equipment drawdowns from Department of Defense inventories, dwarfing the support extended to Taiwan.⁸⁵

Clearly, Russia's war of aggression continues to require major investments into European security and there are difficult tradeoffs involved. But support for Ukraine must not come at the expense of focusing on the Indo-Pacific. The complex and interconnected challenges in these two regions highlight the need for transatlantic partners to work together to address them in a coordinated fashion, and to do so urgently and at scale.

"2023 is likely to stand as the most transformative year in US force posture in [Asia] in a generation. (...) As a package, we are going to be making good on a strategic commitment that people have been looking [at] for a long time."⁸⁶

Dr. Ely Ratner, Assistant Secretary of Defense for Indo-Pacific Security Affairs, US Department of Defense, American Enterprise Institute, December 8, 2022

3. Priorities for Joint Action

Increased European and Canadian engagement on Indo-Pacific security is welcome as is enhanced transatlantic dialogue on these issues. However, there is a need to move from rhetoric to action. The United States will need to demonstrate by example that the Indo-Pacific is in fact a priority. Otherwise, given the limits on Europe's resources, it can hardly expect its transatlantic partners to step up their engagement.

Given the massive economic consequences of conflict over Taiwan (or of confrontation below the level of an all-out invasion or blockade), a key question is how credible deterrence against various types of coercion can be maintained in the face of China's growing military power. It will first and foremost be up to Taiwan, the United States, Japan, and possibly other Indo-Pacific partners to create a military deterrence posture that is effective and sustainable.

But Europeans and Canadians must also contribute to deterrence. At a minimum, they must do so by strengthening diplomatic and economic ties with Taiwan while making clear to Beijing that the use of force would be unacceptable, and that Europe and Canada have a stake in the preservation of peace and stability in the Taiwan Strait. While Europeans have some relevant capabilities (maritime, cyber, and space), so far there has been little debate about a European role in military deterrence. Credible assurance must also be part of the messaging to Beijing, specifically that transatlantic partners will not support any moves toward independence of Taiwan.

Transatlantic partners should prioritize the following measures over the next six to eighteen months:

- **Rebuilding a deterrence posture:** The United States must implement the long-announced transformation of its military posture in the Indo-Pacific.
- **Getting European security right, freeing up US capabilities:** Europe must invest massively into defense to become less dependent on US forces which will increasingly be needed in the Indo-Pacific.
- **Strengthening the defense industrial base:** With a view to ensuring a credible deterrence posture, transatlantic partners must strengthen their defense industrial base including by bringing down barriers to cooperation.
- **Articulating a message of deterrence:** Transatlantic partners should articulate a joint message that the use of force against Taiwan will result in pre-agreed sanctions.
- **Strengthening Taiwan's defenses, maintaining the status quo:** Taiwan should be encouraged to invest more in defense and resilience, it should be discouraged from any moves toward independence.
- **Engaging with partners in the region:** Transatlantic partners should deepen dialogue with partners in the region including Australia, India, Indonesia, Japan, New Zealand, the Philippines, Singapore, South Korea, and Vietnam.
- **Engaging China:** Transatlantic partners should seek to engage the PRC in appropriate formats on transparency, arms control, and risk reduction.

"Any attempt by China to try to change the status quo by the use of military force will have severe consequences for East Asia. But it will also have consequences for NATO allies and for global security."⁸⁷

—
Jens Stoltenberg,
NATO Secretary General,
Nikkei Asia, February 1, 2023

"In our modern, tightly-woven world, what happens in Europe reverberates in the Indo-Pacific. And what happens in the Indo-Pacific reverberates in Europe."⁸⁸

—
Penny Wong, Minister for
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