China and the transatlantic relationship

Obstacles to deeper European–US cooperation

Summary

— The rise of China is one of the greatest challenges for the transatlantic relationship. European countries and the US have similar concerns regarding China, but fundamental obstacles prevent them from taking a more joined-up approach.

— A two-year joint project by Chatham House and the Royal United Services Institute (RUSI) explored the potential for such an approach across four different policy areas: trade and investment; digital technology; climate change; and the global commons. This paper presents some of the project’s findings in those areas.

— As well as competing with China, the US and Europe tend to compete with each other across many of the areas covered. There remains a fundamental divergence, with the EU seeing strategic autonomy as a key goal and the US retaining an ‘America First’ vision. Effective cooperation is also hampered by different approaches to the current global order on both sides of the Atlantic. The EU largely wants to preserve it, while the US has in several cases been the driving force behind increasing dysfunction in the global trading system.

— While the full-scale invasion of Ukraine in February 2022 has brought a renewed focus on Russia within the transatlantic alliance, it has also highlighted the ability of Europe and the US to come together to face threats.

— Similar, strong transatlantic cooperation will be required to deal with other global challenges, including those around European and Asian security and climate change. Sustaining an effective and unified approach to China’s rise will require a concerted effort and, crucially, compromise on both sides of the Atlantic.
Introduction

China is among the most complex strategic challenges confronting the transatlantic partners at this moment. Great power competition (or ‘strategic competition’ as the US is now suggesting) is not of course restricted to China. But the China challenge cuts through so many issues across domains both internal and external that it is perhaps more complex than any other.¹

There are additional tensions between Europe and the US, with Washington frustrated by the European Union (EU)’s inaction on China and at times by its quest for greater strategic autonomy – a phrase that is often interpreted as meaning autonomy from the US. Notwithstanding these frictions and the systemic rivalry between Europe and the US on one side and China on the other, each side of the Atlantic is deeply intertwined with China.

From China’s perspective, the US is the principal adversary and China often tries to detach individual European countries from a transatlantic alignment. It has encouraged notions of European strategic autonomy, recognizing their potential to damage transatlantic relations, as well as finding other ways of amplifying intra-European tensions.

This briefing paper presents results from a two-year joint research project by Chatham House and the Royal United Services Institute (RUSI) on a Transatlantic Dialogue on China. The project examined the transatlantic relationship in the context of the China challenge by looking at four different policy areas – trade and investment, digital technology, climate change and the global commons.²

Although it is by no means the only player on the European side of the transatlantic relationship, the EU’s leading role in many of the policy areas studied made it the main focus of the project. Underlying this choice was the acceptance that, on China, non-EU European powers (including the UK) tend towards policies that either complement the EU’s approach or align closely with the US. Where there were specific divergences or tensions (for example, around the AUKUS defence and security partnership), these were addressed in the analysis.

This paper not only brings perspectives on different but related policy challenges, it highlights several commonalities running across these areas that characterize the overall challenge for the transatlantic relationship.

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²For more on the project, including reports on the policy areas discussed, see https://www.transatlantic-dialogue-on-china.rusi.org.
Given the weight and significance of China, Europe and the US, it is critical to understand how they intersect in these domains at this moment of fluidity in international relations.

The purpose of this paper is to provide analysis and conclusions from the research into these four areas within the context of European relations with China, but also with regard to how these fit into the wider transatlantic picture. The hope is that it will contribute to a better understanding of the challenges faced by the transatlantic partners.

Context

Although the challenges in the four policy areas tend to differ, they all exist within the same context – one in which China is often seen as the West’s major adversary. This is still the case despite recent events in Ukraine, which have refocused Western attention on Russia. This sense of competition with China has been growing for some time, starting during the presidency of Barack Obama but accelerating under the administration of Donald Trump, with China (and, to a certain degree, Russia) becoming the central concern of national security policy under his presidency. In March 2019 a joint communication from the European Commission on EU–China relations identified China as a ‘systemic rival’, followed two years later by the UK’s Integrated Review, which referred to China as a ‘systemic competitor’.

This sharpening of the discourse around China reflects two views in the West. First, the shedding of the notion that China might move towards Western norms as it becomes more prosperous and economically liberal. Rather, China under Xi Jinping is now seen as an increasingly disruptive and assertive power in international affairs, while the space for political discourse within China is closing. Second, the sense that China increasingly sees the world in a purely competitive light, focusing on becoming the dominant power in its region and eventually further afield. Chinese political visions like Made in China 2025, the Belt and Road Initiative (BRI) or the China Dream all articulate a notion of Chinese supremacy and centrality in the global system, or, at the very least, a sense of China as a strong and independent power. Even Western voices that articulate a more nuanced view on Chinese power projection see a strong sense of competition underpinning Beijing’s thinking.

The current US administration of President Joe Biden has retained a broadly antagonistic approach to China in almost all policy areas, while placing a greater emphasis on working together with allies than its predecessor. EU–China relations have deteriorated at the same time. An example of this has been the failure to move forward the ratification of the so-called Comprehensive Agreement on Investment between the EU and China, signed in late 2020 and seen initially as a snub by the EU towards the incoming Biden administration. Mutual imposition of sanctions

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has stalled the agreement’s ratification by the European Parliament. European powers had already expressed concern about human rights abuses in Xinjiang and restrictions on political freedoms in Hong Kong, leading to strong support for US sanctions against China. Beijing reacted with counter-sanctions, including some targeting members of the European Parliament and academics based in Europe. Policy on all sides – including in China – is, if not explicitly pushing towards a complex and costly decoupling, shifting towards greater economic self-reliance. Bifurcation in technology (and other) standards will further exacerbate the development of separate international blocs.

China is also increasingly seen as an aggressive military power. China’s military development has accelerated as it tries to live up to the demand by President Xi that the People’s Liberation Army be able to fight and win wars. This is not necessarily a statement of aggression, but a clear articulation of a need to improve capabilities. At the same time, confrontations with India, incursions into Taiwan’s air defence identification zone (ADIZ), a growing external military presence, increasingly aggressive action at sea and dual capabilities in outer space all point to a China that seeks to present itself as a significant global military power. The US has long confronted Beijing militarily, but European powers are now increasingly eager to deploy their seafaring capabilities in Asian waters. This stance is a demonstration of both support for allies in the region (including the US) and of a growing willingness to confront China.

This is the wider geopolitical and geo-economic context in which Europe, the US and China currently operate, setting up a complicated triangular relationship between the three powers. Geopolitical trends are pushing Europe and the US closer together, in large part due to a growing disconnect and divergence of worldviews with China. Russia’s full-scale invasion of Ukraine in February 2022 has further complicated the situation, with likely ramifications for all the policy areas considered in this paper. The EU and the US responded rapidly and largely in unison through coordinated sanctions on Russia and broadly similar approaches. Meanwhile, China has so far remained equivocal and, at times, has appeared to support Russia.4

However, there are areas in which cooperation is not only possible but essential. Climate change is recognized as one of the greatest challenges facing humanity. Without joint action and cooperation, it will be impossible to avoid the potentially catastrophic warming of the planet. Similarly, global pandemics will be hard to manage in a decoupled world, and a divided global economy is likely to be a less prosperous one overall.

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Transatlantic divergence and convergence

In this wider context, there are numerous structural issues which create tensions across the Atlantic and complicate efforts to develop a coherent perspective on China. At the same time, there are several areas of clear convergence – most obviously the long-standing close security links (exemplified by NATO), and the deep economic interlinkage. But there are also divergences, often driven by internal policy disputes within Europe and the US. There is an overarching assumption that Europe and the US – as close liberal and democratic partners in contrast with autocratic China – should have the same strategic and geopolitical ambitions, and should seek close cooperation to that end. However, transatlantic divergence and convergence on China are visible across the four policy areas examined in this paper. The nature of great power or strategic competition has meant that Beijing and Washington’s view of one another has had a greater impact on their policy direction than transatlantic coordination. In Europe, the China challenge remains further down the agenda than in the US, and responses are often hindered by a lack of agreement within the EU.

Trade and investment

Significant differences in perspective remain between Europe and the US, and also within Europe, when it comes to economic policymaking in response to the rise of China. The variations in economic exposure to China (see Figure 1, which shows European countries’ goods trade with China before COVID-19-related disruption) go some way to explaining these differences, particularly among EU member states. While all EU countries import significant quantities of goods from China, some member states have more at stake than others in terms of exports and investments. Germany is the bloc’s largest and most powerful member state, and also the most economically interwoven with China, both in absolute and relative terms. This complicates the EU decision-making process. Furthermore, interest in courting inward investment from China varies strongly between EU member states. While most Western European member states have become increasingly sceptical of Chinese investment – as this is seen to be driven in part by China’s desire to gain access to critical technologies – some Eastern European member states have continued to court inward investment from China, often with disappointing results.5

5 A good example of these disappointing results is the Czech Republic, where, following a visit by President Xi in 2016, hopes were high for a surge in investment from China. This did not materialize and the relationship between the two countries in fact worsened in subsequent years. See Garlick, J. (2020), “Chinese Investments in the Czech Republic: Opportunity or Threat?”, China Observers in Central and Eastern Europe (CHOICE), 12 February 2020, https://chinaobservers.eu/chinese-investments-in-the-czech-republic-opportunity-or-threat.
Some of the resulting dynamics have been seen recently in the spat between Lithuania and China over Lithuania’s recognition of the Taiwanese representation in Vilnius. China retaliated with economic measures, and threatened others doing business with Lithuania. Although the EU did file a case against China at the World Trade Organization (WTO), the initial response from the German business lobby was to put pressure on Lithuania to reconsider its actions.

There are also clear differences within countries. Those EU member states that are most deeply integrated with the Chinese economy, like Germany, remain hesitant to take a more confrontational approach. While the US approach generally has been confrontational, including under President Biden, the American financial sector

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is one of the main examples of an industry actually increasing its exposure to China.\textsuperscript{8} The market opportunity in China remains large enough to create divisions between those in Europe and the US seeking to profit from it and those looking to push back for either economic or political reasons. Often this is seemingly strategically driven by Chinese policy, as the Chinese government in recent years both opened its financial sector for US firms and reduced joint-venture requirements in the automotive sector; the latter with the intent of attracting German carmakers to invest even more in China.\textsuperscript{9}

In the realm of economic policy, and the economic challenge posed by China, the differences between the transatlantic partners are in the perceived scale of that challenge but also in how Europe sees itself in relation to both China and the US. Although the EU has begun talking about China as a ‘systemic rival’ as relations with China have moved up the agenda, it has mainly responded with a series of relatively small policy interventions, aimed at reducing or removing distortions to the level playing field in its single market. These measures have included, for example, investment screening mechanisms, rules on public procurement, a stronger focus on industrial policy and pursuing concessions from China on reciprocal market access. In contrast, for the US, the rivalry with China has become almost a defining feature of its policymaking. Although economic decoupling has become a less overt objective under Biden, policy has not changed to any significant degree compared with the Trump administration.

Differing attitudes on both sides of the Atlantic towards the future of the global economic governance system form another major obstacle to a more coordinated transatlantic response to the economic challenge from a rising China. While the EU has sought to sustain the global multilateral trading system, the US has put it under pressure by undermining the WTO’s dispute settlement system.\textsuperscript{10} A similar split has been visible over how to engage with China through multilateral financial institutions and the extent to which both the EU and the US have been willing to engage with new, often China-led institutions such as the Asian Infrastructure Investment Bank (AIIB). The BRI has also proved contentious, with some European countries – mainly in Central and Eastern Europe – actively engaged with the initiative. In contrast, the US has sought to engage European partners in its own competing initiatives, such as the soon to be rebranded Build Back Better World (B3W) Partnership.\textsuperscript{11}

Transatlantic cooperation in many of these areas is as difficult to achieve as a broader European strategy. This is because European thinking is often defined as aiming to achieve economic sovereignty not just in relation to China, but also the US. In many ways, this stance is not dissimilar to US policies aimed at bolstering ‘America First’, but within Europe internal competition between member states adds a further layer of complexity.

Beyond being significantly closer to each other in terms of values, Europe and the US are also more deeply economically interlinked than China is with either party. Although both the US and the EU import significant amounts of goods from China, other measures of economic interconnection show a much stronger transatlantic bond. For instance, despite a significant increase in Chinese investment in Europe during the past decade, the amount of inward investment in the continent from China is still dwarfed by that from the US (see Figure 2).

**Figure 2. Sources of foreign direct investment stock in Europe, 2019**

*2018 data
Companies and private sector representatives in both the US and EU have increasingly voiced frustration with Chinese economic practices such as forced technology transfers, intellectual property protections, unfair competition from Chinese state-owned firms and unreciprocated market access. However, the lure of the Chinese market, and even of cooperation with Chinese firms, remains strong enough for them to keep their criticism modest.

The increasing realization of the scale of the China challenge in Europe and the much closer and historic interlinking of transatlantic economies, together with a decrease in transatlantic tensions under the new US administration, have led to more cooperation between the EU and US.

There are also similarities to be found in terms of policies enacted on both sides of the Atlantic. Policies enacted by the EU as part of its so-called toolbox, such as investment-screening, an anti-coercion instrument and export controls, are comparable to efforts in the US. These provide potential for transatlantic cooperation, through information-sharing or shared action. For example, one of the working groups within the EU-US Trade and Technology Council is on export controls.\(^\text{12}\) While this also suggests some cooperation on industrial policy – particularly with regard to the challenge from China in areas such as artificial intelligence (AI) and electric vehicles – there remains more competition in this area than cooperation. This is highlighted by the fierce competition between European and US firms to attract semiconductor manufacturing capacity in the wake of the global shortages in this sector since the COVID-19 pandemic.

The increasing realization of the scale of the China challenge in Europe and the much closer and historic interlinking of transatlantic economies, together with a decrease in transatlantic tensions under the new US administration, have led to more cooperation between the EU and US. This is, for example, apparent in the newly created EU–US Trade and Technology Council (TTC), an attempt to develop a structure for transatlantic coordination in the key area of technology. While the aim of the TTC is far wider than solely policy towards China, it speaks of encouraging ‘compatible standards and regulations based on our shared democratic values’. The TTC plans joint work and cooperation on norms in a series of important technological areas (such as AI). It should be noted that, despite all this work, the remit of the TTC is largely limited to coordination. A return to something like the failed negotiations on the Transatlantic Trade and Investment Partnership (TTIP) – an attempted EU–US trade agreement in 2016 – remains highly unlikely.

The importance of the China challenge is also visible in the EU’s overt attempt to compete with the BRI through its Global Gateway plan. As with the US-led B3W initiative, it remains to be seen whether Global Gateway will be substantial enough to have any real economic or geopolitical impact, as no new resources have been made available for it. Closer cooperation between the EU and the US has also yet to lead to any significant shared efforts to boost the influence and effectiveness of multilateral economic and financial institutions; the US is often behind the increasing ineffectiveness of those institutions and presents a stumbling block to reforms that the EU would prefer to pursue, for instance in case of the WTO.

**Digital technology**

There is a general agreement on both sides of the Atlantic about the importance of digital technology, as highlighted by the creation of the TTC. It remains to be seen to what degree the TTC achieves its goals, but its existence – as well as the desire to focus on technology and the continued veiled references to China and Chinese investment in its published materials – all highlight the desire of the EU and the US to at least focus discussions on the topic. It is also clear that, via purchases of Western technology firms and other overt or covert methods, China is strengthening its own capabilities – something that European powers are becoming increasingly aware of and are expressing concern about. There are, however, numerous fissures between the EU and US which suggest that the TTC will face challenges in trying to develop a coherent transatlantic approach towards China in the digital and technological domain.

The first issue is the way in which broader geopolitical tensions and relations affect internal European politics. Broadly speaking, Central and Eastern European countries view the relationship with the US as essential and as the key bulwark against Russian aggression – a fear that has become more acute in recent years and particularly amid the Russia–Ukraine conflict. This means that those countries are keen to pursue policies closer to those of Washington than to the views of either Brussels or larger member states. This divergence was most apparent during the Trump presidency, when Central and Eastern European countries were among the most supportive of the push from the US administration to remove Chinese technology from European digital infrastructure. This view was in contrast to that from Western European capitals such as Berlin, London or Paris, where there was a desire to constrain rather than to block Chinese technology. Larger member states have sought a balanced relationship with Beijing partly due to their economic interests, which echo through the digital and technology spaces, and partly to different geopolitical views.

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While France and Germany view the transatlantic security alliance as crucial to their security and prosperity, there is also a strong desire in those countries to emphasize European (or, rather, national) strategic autonomy from the US. At the same time, the view in Central and Eastern Europe is not universal, with some countries like Hungary placing a premium on the relationship with Beijing – a stance which, to some extent, is guided by the significant Chinese digital and technological investment in Hungary.\(^\text{16}\) This investment is also visible in the larger EU member states, which have welcomed Chinese participation in research and development as well as other key digital and technological domains (see Figure 3, which shows the number of individual Chinese technology projects in each European country). These countries are keen to retain such investments – in some cases because companies might go out of business if Chinese investment was not forthcoming and also because Western governments do not necessarily see a value in underwriting those companies. This desire to maintain inward investment flows creates a natural point of influence for China within Europe, but also counteracts attempts in Europe to present a more aggressive front against China on technology in particular.

Within the transatlantic alliance too, there is an inherent tension caused by competition and cooperation. Western governments may currently favour cooperation to confront the challenge posed by China, but this is not always the case among private companies, and each side of the Atlantic is likely to favour its own businesses. Ideas for joint US and European support for Western companies that can become ‘champions’ in technologies currently dominated by Chinese firms do not appear to have been taken forward.

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Companies themselves do not always have the same interests as their host governments and tend to be more agnostic in their political views. Their desire to access large markets like China means they may be more inclined to seek engagement. Vast parts of tech supply chains are linked to China, while Western tech companies sell considerable volumes of goods in the Chinese market. This makes the technology space an inherently difficult one for Europe and the US to control and hinders any joint effort to force companies to comply with an anti-China stance.

This tension between private and public sector interests runs through the entire digital and technology space. Within China to some degree it is more coherent, though often the West underestimates the tensions within the Chinese system – most recently evidenced by the clampdown on social media and tech companies within China.\(^\text{17}\) This development reflects a desire by the Chinese government to bring the sector under tighter state control, in part due to many of the same concerns around data protection that exist elsewhere, but also out of concern over the immensely powerful structures being built in the Chinese private sector, which the state fears could supplant it in key sectors of the economy. At the same time, in the West, liberal market policies make it difficult for governments to develop industrial policies that do not undermine the free-market logic underpinning the European and American economies. Given the increasing centrality of technology in daily life around the world, this dynamic will be a difficult one to manage anywhere.

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At the same time, the decision to focus transatlantic cooperation in a vehicle such as the TTC reflects both the importance for the area for future growth and its role in the competition with China. Within the technology domain, the public sector largely acts as a regulator, and is crucial in determining the rules within which companies operate. This impacts everything from development and ethics to income, economic viability, employment and tax burdens. Given the size and power of the transatlantic economy in this regard, coordination affords the EU and US considerable influence in determining international technological norms.

The public sector can also play a significant role in investing in the research and development that underpins the discoveries helping to develop the digital world – though, in this area, the public sector is most usefully able to play a supportive role. Once technologies have started to achieve a certain maturity, it becomes harder for the public sector to be involved as this can be seen as distorting the market. At earlier stages of development, government can provide the investment.

and support that can help ideas be tested and in some cases fail. Identifying which technologies to support, and how long to continue to support them, becomes a difficult balance for government, especially when market viability in certain key technologies may only be achievable through subsidy – for example, when a much cheaper Chinese technology is widely available.

Finally, there are also normative and conceptual disputes between Europe and the US in the area of digital technology; for example, on the subjects of data privacy and regulation of online discourse. In Europe, there is a greater willingness to seek to impose restrictions, while in the US a more libertarian approach is favoured. At the same time, European approaches to personal data protection have gone much further than the US – exemplified by the General Data Protection Regulation (GDPR), which entered into force in May 2018 and which places much greater emphasis on data managers to ensure citizens’ control of personal data. This directly contradicts the business model of numerous online firms, including that of large US social media platforms, and has caused a degree of transatlantic friction. In contrast, China has created its own legislation mirroring large parts of GDPR.

However, in terms of the openness of online discourse, and even in areas like protection of citizens’ data, Europe and the US are closer in perspective than either of those two partners are to China. In terms of developing the future infrastructure and standards of the global digital economy, Europe and the US also share more with each other than either does with China. This extends into the global institutions that shape our technological world, where there is a growing effort by both Europe and the US to coordinate efforts to counterbalance Chinese attempts to dominate and establish norms that reflect their own interests.

## Climate change

China, the EU and the US are the world’s three largest emitters of greenhouse gases and therefore are fundamental to global efforts at achieving a stable climate. In the US, climate change is a party-political issue, with Democrats largely favouring both national and international action – for example, Democratic President Obama signed the 2015 Paris Agreement on climate change\(^{18}\) – and the Republicans less committed – Obama’s Republican successor, Trump, withdrew the US from the Paris Agreement in 2020.\(^{19}\) To further demonstrate the partisan nature of climate change, one of the first acts by President Biden – a Democrat – after taking office in January 2021 was to rejoin the agreement. Therefore, all too often, the nature of the US’s international engagement changes every four to eight years with the election of a new president. Given the US’s importance to global efforts

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to combat climate change, this on/off approach creates significant difficulties for the EU and other like-minded partners, as they seek to build and maintain momentum towards more ambitious policies.

However, while the US’s international climate policy is led by the president, the ability of any administration to ratify international agreements is ultimately determined by the US Senate. This tension was demonstrated in the late 1990s when the Clinton administration signed the Kyoto Protocol – which was a legally binding treaty as opposed to the non-binding Paris Agreement – but never submitted it to the Senate for ratification. Efforts at international cooperation therefore face further uncertainty, as not only does the US climate position depend on whether a Democrat or Republican is in the White House, but also whether the executive and legislative branches of US government are politically aligned.

Climate change is considered an important issue by the incumbent Biden administration, as demonstrated by its hosting of the Climate Leaders Summit in April 2021. John Kerry, the Special Presidential Envoy for Climate, has invested considerable time and effort into engaging with China, resulting in the signing of a joint declaration on enhancing climate action at the UN COP26 climate summit held in November 2021. While the declaration does not bind either party to new targets, it does provide a platform for further cooperation between the US and China.

China is important to global diplomacy on climate change, owing to the scale of its emissions and to its manufacturing capabilities, being the world’s largest producer of solar and wind equipment. Furthermore, China has significant geopolitical and economic influence, particularly in developing countries and those countries that are signed up to BRI.

Individual EU member states have enacted their own climate mitigation plans, carbon-pricing and cooperation agreements with third countries. The EU has been consistently supportive of more ambitious climate action, although Central and Eastern European member states tend to be less enthusiastic. During negotiations between member states on the latest 2030 carbon reduction plans, Poland, alongside like-minded states, sought to ensure that the upcoming reform of the EU carbon market would increase financial resources dedicated to supporting the transition in Central and Eastern European member states. Despite these divisions, under the current presidency of Ursula von der Leyen, the European Commission has made climate change a high priority, with increased funds

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and more ambitious emissions reduction targets. In the approach to COP26, the Commission raised the climate mitigation target to greenhouse gas emissions reductions of at least 55 per cent by 2030, up from 40 per cent as initially proposed in the Paris Agreement.\textsuperscript{25}

Climate change is recognized as one of the most important – if not the most important – global challenges of our time. Emissions primarily from the burning of fossil fuels and land-use changes are increasing the concentration of greenhouse gases (carbon dioxide, methane, nitrous oxides and fluorine gases) in the Earth’s atmosphere, resulting in a higher planetary temperature. If emissions continue to rise, then the consequences of the associated increasing global temperature will be catastrophic for humanity. The most recent IPCC report said that: ‘[i]t is unequivocal that human influence has warmed the atmosphere, ocean and land’, which is ‘already affecting many weather and climate extremes in every region across the globe’.\textsuperscript{26}

Greenhouse gas emissions have the same impact regardless of where they are released. Therefore, without common action, it is impossible for any country or individual to be unaffected. Given the clear and uncontested view of the causes – and, increasingly, the impacts of climate change – global and coordinated action needs to follow.

There is no doubt that unless China and the US – and, to a lesser extent, the EU – take ambitious climate action, meeting agreed targets will be extremely difficult, if not impossible. Joint actions will also both make the transition cheaper and more rapid and will remove much of the uncertainty about decarbonization. Therefore, an overarching cooperative approach to climate change is clearly not only mutually beneficial but essential. It demonstrates the necessity of a cooperative approach between China, the EU and the US, and also of common approaches between the G20 countries and with developing countries, emissions from which in many cases are rising rapidly.

The war on Ukraine and consequent economic sanctions imposed on Russia have affected global prices for fossil fuels, and have raised concerns in Europe particularly over energy security. The implications for climate change are unclear, as the EU seeks to accelerate the transition towards greater use of renewable energy and increased energy efficiency, in order to reduce its dependence on Russian-sourced coal, oil and gas. This may in turn lead to the export of more Russian fossil fuels to China. The US is also anticipating increased exports of its gas to the EU, further changing the geopolitics and financial flows of the global energy sector.


The global commons

In Europe, the EU and its member states (as well as most non-EU countries) have signed up to the major global regimes governing the seas and oceans, including those covering the Southern Ocean and its seabed and outer space. However, national economic interests, as well as intra-European political disputes, have led to a fractured European response on a range of issues that extend beyond the long-standing concern over China’s human rights record. These include, among others, technological cooperation with China on outer space and arbitration on disputes in the South China Sea. On the latter, for example, Greek and Hungarian objections to an EU statement in support of a 2016 ruling by the Permanent Court of Arbitration, against China’s maritime claims in the South China Sea, were criticized as being motivated by those countries’ dependence on Chinese inward investment.27 Croatia also reportedly raised concerns over the statement, owing to its own maritime boundary disagreement with Slovenia, for which the court ruling would have set a precedent.28

As in other areas of policymaking, intra-European governance structures hamper coordination. In the example of outer space, European policies have been overwhelmingly driven by individual member states and their national space agencies. To an extent, these agencies are brought together in the European Space Agency (ESA), but this organization itself is separate from the EU. While the EU has sought to streamline its space policy via the EU Space Programme for 2021–2027 and its new EU Agency for the Space Programme in order to be able to compete with China and the US, it remains unclear how these initiatives will reduce the influence of national interests in the decision-making process.29 Indeed, while the EU seeks to establish its own space industry and strategic position, France reiterated in March 2021 that it would continue to work with China bilaterally in outer-space exploration.30 Similarly, the ESA continues to support China’s space exploration programme.31 Media reports suggest that France and the ESA were exploring opportunities to work with China and Russia on their future lunar base, although it remains uncertain whether this was indeed the case and how Russia’s full-scale invasion of Ukraine will affect long-term interest in such cooperation.32 Potential economic opportunities in the space industry have further driven European companies to cooperate with their Chinese counterparts, despite growing concerns of European governments over Chinese dual-use capabilities.

and strategic objectives in outer space. The private sector provides an example of the difficulty of building deeper transatlantic cooperation, despite pre-existing comprehensive links between Europe and the US and long-standing messaging from the US over its concerns regarding European space cooperation with China, in particular the sharing of sensitive technology. However, the commercial opportunities to advance European space technologies and companies, and to create security supply chains to help enable strategic autonomy, also drive a sense of competition with the US.

There are more deep-rooted challenges in the differing European and US interpretation of norms, particularly with regard to outer space.

The economic dimension of countering China’s challenges in the global commons can also be seen in the maritime sector. For example, in 2021, German sales of engines were reported to have helped to modernize the Chinese People’s Liberation Army Navy fleet, despite widespread concerns in Europe and the US over both Chinese military modernization in general and China’s assertiveness at sea in waters beyond its national maritime jurisdiction.

However, there are also more deep-rooted challenges in the differing European and US interpretation of norms, particularly with regard to outer space. While the EU recognizes outer space as a global common, recent US administrations have mainly sought to protect American national interests in this new frontier. In 2015, the Obama administration enacted the US Commercial Space Launch Competitiveness Act, which included Title IV on Space Resource Exploration and Utilization to defend US investments in outer space resource-extraction. In 2020, Trump signed an executive order stating explicitly that outer space is not viewed by the US as a global common. Furthermore, the US has embarked on its own regime for conduct in outer space through the creation of the Artemis Accords, an initiative which so far has received the support of 19 other countries, including seven European states, with France becoming the 20th state to join the accords in June 2022.

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Despite their differences over governance of the global commons, there is also a great deal of alignment between Europe and the US. This is particularly evident in the maritime domain, despite the US’s continued refusal to ratify the UN Convention on the Law of the Sea (UNCLOS) due to long-standing domestic political opposition. Concerns cited by opponents include possible infringements on US sovereignty through restrictions on its access to marine resources and legal obligations to accept the jurisdiction of an international body over disputes concerning US resources and territory. However, the US has consistently abided by UNCLOS as a matter of customary international law. It is also worth noting that not all states that have ratified UNCLOS – including European states – share the same interpretation of its various rules, and that such differences have not obstructed their relations with other countries.

Increasing interest in the Indo-Pacific from European states, as demonstrated by recent naval missions in the South China Sea, shows a shared concern over Beijing’s attempts to rewrite the rules of maritime law in its own region. In 2019, the E3 – France, Germany and the UK – issued a joint statement expressing support for UNCLOS and the 2016 PCA Final Ruling on the South China Sea, and noting their concern over destabilizing activities that were not in line with international maritime law. This was followed in 2020 by a note verbale to the UN. In 2021, France, Germany and the UK separately announced that they would send warships to the South China Sea and the Indo-Pacific region in an effort to underscore the importance of international maritime law and the principle of free passage; the UK’s deployment of its Carrier Strike Group included a US ship and a Dutch ship, as well as US F-35 jets.

Transatlantic cooperation in the governance of outer space is likewise moving forwards. A UK-led UN resolution on norms for conduct in outer space received support from both European states and the US. Cooperation is also being advanced through the ESA, plus government-to-government and commercial channels. While the Artemis Accords have not yet been fully subscribed by EU countries, the ESA and NASA have signed a bilateral memorandum of cooperation on joining ‘the first human outpost in lunar orbit’ by contributing service modules and affording ESA the opportunity to send European astronauts to the outpost. NATO is also considering the strategic use of space: in 2019, it adopted a new Space Policy and declared space an operational domain. In 2020, NATO established a dedicated

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39 Ibid.
space centre at Allied Air Command in Germany, and in 2021, it recognized that its members could invoke Article 5 of the North Atlantic Treaty over attacks to, from or within space.

**Conclusion**

While Europe remains closer to the US than it is to China, and while European countries and the US share concerns over China’s economic and geopolitical rise, the transatlantic relationship is far from settled when it comes to developing a coherent response to the challenges posed by China. Obstacles to closer cooperation are present across all four policy areas explored in this project. Although this paper is far from exhaustive, it presents some of the most significant barriers to more effective transatlantic cooperation on China in several policy domains.

Competition between Europe and the US holds back deeper transatlantic cooperation across all policy domains considered. For instance, discussions in Europe on attaining strategic autonomy are often held not so much with China in mind, but the US. Meanwhile, US policy remains broadly one of ‘America First’. This rivalry continues to drive competition in trade and technology, with impacts on normative behaviour in the global commons.

Furthermore, the fractured nature of internal policymaking in the governance structures in both Brussels and Washington remains a hurdle across all of the policy domains studied. While the narrative of the past years has been a growing political consensus in numerous Western countries with regards to China, the reality is that many institutions and sectors in those countries retain different interests – whether they are in the private sector, public sector or are non-governmental in nature. For example, US tech companies continue to depend heavily on Chinese contractors and suppliers, while German automotive firms remain reliant on demand from the Chinese market. On both sides of the Atlantic, influential constituencies believe in a more moderate approach to China, would prefer engagement over confrontation, want economics to be prioritized over human rights or can see the benefits of continued engagement in such areas as environmental protection and resource scarcity.

Paralysis in policymaking is a long-standing complaint about the European and US governing structures. This does indeed place the transatlantic alliance at a disadvantage when facing China’s more top-down decision-making process. While varying perspectives can be found in the Chinese system, the central command structure is more focused and has become stronger during Xi Jinping’s presidency. For example, while European and US authorities struggle to regulate their digital sectors, there has been a dramatic regulatory clampdown on technology companies in China recently. Beijing clearly has greater capacity...
to bring companies to heel, compared with Western governments. Even if US and European authorities were able to agree a course of action, it is not clear that their private sectors would necessarily follow.

It is worth observing that the transatlantic partnership was able to rapidly mobilize and respond to Russia’s full-scale invasion of Ukraine in February 2022, suggesting that it is not impossible for Western countries to overcome internal disagreements to impose strong and punitive sanctions on an adversary. But it is not clear that China would undertake such a bellicose action as Russia’s to prompt a similar response. It is equally true that Russia’s links with the global economy are not the same as China’s. While there is still deep interdependence between Europe and Russia in certain sectors (for example, in energy), the direction in Europe at the moment is to break this dependence. Nevertheless, the key lesson here is that, in the face of extreme action, Europe and the US can mobilize rapidly, and are willing to accept damage to their own interests in advance of a common goal against an adversarial power.

Across the four policy areas, there is a significant difference in adherence to the existing global multilateral order between the transatlantic partners, as both the US and China have undermined this at certain times. This has led the EU to seek a mediating or leadership role in the policy areas of trade, digital and tech, climate change and global governance. European powers regard themselves as both beneficiaries and champions of the international order and its institutions. They also see the EU as an independent strategic actor and would rather move towards greater autonomy from the US than increase dependence. This sentiment might be stronger under some US administrations than others. But the main lesson for Europe from the Trump presidency was that the US might not always be a reliable actor and partner in international affairs. Even under the Biden presidency, the AUKUS partnership and the chaotic withdrawal of US forces from Afghanistan against European wishes appear to have confirmed the sense among certain EU countries that they lack influence over decision-making in Washington.

It is further important to consider third-party countries in all policy areas – both in Asia and elsewhere. These powers have considerable agency over the issues considered in this paper, and have their own perspectives on the China challenge. For example, Taiwan is crucial to the production of semiconductors, while Japanese and South Korean firms are at the cutting edge of many new technologies. Meanwhile, much of the developing world continues to rely on Chinese suppliers of goods due to their relatively low prices and rapid delivery – which Western companies struggle (or do not want) to compete with.

A solely transatlantic response to China will therefore leave gaps, which will make it impossible to achieve desired outcomes. Cooperation with third countries is already happening in some areas as the transatlantic partners engage more deeply with security issues in the Indo-Pacific region. But even in this case, they do not always take the wider region into account, except China and a small number of large players like India and Japan.
The current lack of trust within the international system makes good-faith engagement difficult. But it is imperative to include China in the global conversation if these problems are to be overcome. China is now a major part of the global system and this is unlikely to change fundamentally in the medium-term.

Whether the issue is establishing rules on international technology standards, mitigating the next pandemic or governing the global commons, some level of engagement with China will be necessary. On climate change in particular, no comprehensive solution is possible without China. It may prove difficult for Western policymakers to achieve such engagement. But finding a balance between engagement, competing views within the transatlantic alliance and an increasingly assertive China will be the West’s most significant challenge for the next decade or more.

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Transatlantic Dialogue on China project

The project aims to explain the differences between the US and Europe’s approaches to dealing with the challenges and opportunities posed by China.

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