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China's rise: what about a transatlantic dialog?

Philippe Le Corre¹ · Jonathan Pollack¹

Abstract This essay examines and evaluates China's global rise and the state of the transatlantic discussions about this issue. Since 2010, the rise of China has been accompanied by multiple Chinese initiatives on the international front, especially in the fields of trade and investment. Chinese overseas direct investments are on the rise at a global level. The creation of the Asian Infrastructure Investment Bank, of the Silk Road Fund, and of the "Belt and Road" initiative are signs of a much more assertive China that is now engaging Western countries, including Europe and the USA. Western reactions, both at governmental and grass-root levels have been mixed. Two questions emerge: can Europeans agree on a common policy toward China? And can the USA and the European Union pursue a dialog and a more coordinated strategy? This will be especially relevant in the context of President Donald Trump's administration as well as newly elected governments in France and Germany following general elections in these countries in 2017. The future of a transatlantic dialog should also encompass the British question when the UK leaves the EU. As the USA and leading European countries map their foreign policy strategies in coming years, there is a need to elevate policy coordination toward China in the hierarchy of political and economic goals. The paper offers some suggestions on possible priorities.

Keywords China's foreign policy · Chinese economy · Transatlantic relations · European Union external policy · Trade · FDI · Brexit · Belt and Road Initiative

China's emergence as a global economic power and its fuller integration in the international order are among the principal policy challenges facing Europe and the USA in the early twenty-first century. This paper focuses on China's global rise and whether Europe and the USA can more fully coordinate their approaches to China's

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increased economic power and political influence. This question assumes particular relevance in light of ongoing leadership transitions on both sides of the Atlantic.

Europe and the USA share many comparable concerns about China's rise, but their separate identities and interests also reveal significant differences. This may prove even more true under President Donald Trump, who seems likely to approach China policy very differently from the policies of the EU as well as the Obama administration. At the same time, EU-wide and country-specific engagement with China have accelerated dramatically over the past decade, increasing the challenges to effective policy coordination. The prospect of a post-Brexit, perhaps less ambitious European Union, may create additional opportunities for China that must also be addressed.

At the time of Beijing's entry into the World Trade Organization (WTO) in 2001, China was in global terms an economic actor of limited consequence. A decade and a half later, China's transformation is without parallel in economic history. Over the past 15 years, China has experienced an eightfold increase in GDP, enabling it to serve as the primary engine of global economic growth in the early twenty-first century. It has leapfrogged from sixth to second place among the world's economies, trailing only the USA in absolute economic size. In addition, China has become the world's leading trading state and is now the second largest source of outward foreign direct investment.

Change of this magnitude has enhanced China's political power and economic leverage. It has also stimulated China's internal economic evolution, simultaneously expanding the power of state-owned enterprises (SOEs) while also contributing to major growth in the private sector. China has also begun to think bigger, devoting increased attention to the rules of global economic governance. Although Beijing insists it has no intention of supplanting the existing international order, China contends that changing power realities will require modification of global rules.

China's heightened ambitions are occurring amidst a wrenching transition in the Chinese economy. At earlier stages of the country's economic reforms, China's lower labor costs conferred ample advantage to Chinese producers of consumer goods. As economic growth has slowed, Chinese policymakers increasingly call for innovation and new product development to facilitate advancement to higher levels of development. These goals presume greatly increased Chinese overseas investment and technology acquisition from the world's more advanced economies. But slowing Chinese growth threatens to limit investment opportunities within China for the EU and the USA. China's economic practices and priorities thus raise growing questions of their compatibility with the policy expectations of the advanced industrial economies. Reconciling these expectations have therefore become defining issues in both Europe and the USA.

The USA and the EU have both wrestled with China's economic rise but seldom in highly coordinated fashion. Though officials on both sides of the Atlantic with responsibilities for trade and finance interact regularly, these relationships have not extended to all policy realms. To an extent, these highlight differences between the US and EU policy concerns, as well as competing corporate interests across the Atlantic and within the EU.

In this paper, we argue that the USA and the EU have substantial incentives to commit to much more sustained and focused deliberations over China's rise. Even amidst differences in policy approach, heightened cooperation should benefit both the USA and Europe. The USA-China relations under the Trump administration could

prove very bumpy on a host of issues, including trade, investment, Taiwan, the South China Sea, and North Korea.

The new US administration is likely to focus primarily on China as an economic competitor. The stakes are very high for Europe's leaders, who must grapple with the increasing centrality of China to the continent's economic future. This includes Beijing's effort to expand its economic and infrastructural involvement across continental and maritime Asia, which presumes increased connectivity between China and the economies of Europe under Xi Jinping's "Belt and Road" initiative.

Chinese strategists have for many years characterized Europe as an emergent pole in a multipolar international system. For Beijing, multipolarity reduces the singularity of America's global power and influence, without directly challenging the US leadership. Europe envisions multipolarity as a means to achieve a more balanced yet closely connected relationship with the USA. But fully enmeshing China in the region's future poses risks as well as opportunities for Europe's major economies. The EU faces dilemmas and complexities in developing a comprehensive approach to China policy, as distinct from country-specific strategies. This challenge will be even greater with UK's withdrawal from the EU, diminishing the possibilities of a unified European voice.

It seems very doubtful that China believes that it can detach Europe from its enduring economic, political, and security bonds with the USA, though it has an interest in eroding them. Leaders in Beijing recognize important differences between China's relations with the EU and its larger geopolitical competition with the USA. In Chinese strategic thinking, Europe does not represent a rival power center comparable to the USA. As a union with a current membership of 28 states (many of whom face very difficult economic circumstances), the challenges of policy coordination are substantial. At the same time, there is no overt security rivalry between the EU and China, a factor that Chinese leaders believe can work to their country's advantage. But the deep commitment of European states to a rule-based international order raises the issue of how China seeks to accommodate to EU norms and practices.

Sustainment of the global economic order in the absence of China's full commitment to existing practices and norms would prove very difficult, especially if China is intent on developing alternative concepts of global governance. But the possible tilt in the US foreign policy more toward a more unilateralist stance (potentially entailing an emphasis on economic nationalism) is an additional uncertainty. The USA and Europe both want to ensure that China's increasing power does not undermine the principles and policies that have enabled unparalleled economic prosperity for decades. A shared commitment to this policy goal, while enabling China to emerge a full-fledged participant in the global economy, will be critical to sustained economic prosperity.

The new EU China strategy, released in June 2016, sought to address many of these challenges (Joint Communication 2016). The document reaffirmed and extended the logic of comprehensive engagement with China. But it did not explicate the potential contradiction between the desire to elicit China's "more active participation in global governance, security, and defense," while also voicing concern about China's "increased assertiveness." Though there is a clear overlap with the US policy concerns, the EU document is less hedged than comparable US policy statements. It offers numerous "shoulds" to guide EU policies that seem largely unobjectionable (for example, advancing goals in Chinese economic reform, enhancing reciprocity and

fairness in economic competition, increasing attention to the rule of law, heightening transparency and connectivity, and pursuing a shared commitment to global public goods and the protection of human rights). But it does not pose the equivalent “what ifs”: What if the expectations underlying EU strategy are not met? It also does not specify how the EU should measure progress toward various policy goals, and how (if at all) the EU should respond if China does not meet European expectations.

But the EU strategy clearly recognizes China’s increased centrality to the continent’s economic future. Trade and investment levels between Europe and China already approach or in some areas exceed the USA-China economic relationship. China has possibly concluded that Europe has advantages as a long-term partner greater than the USA. But the transatlantic allies do not yet seem wholly mindful of the need to more closely examine their respective China strategies and to determine how they can be more effectively coordinated.

There is also a clear need to better grasp how China views its policy strategies toward Europe and the USA, and the relative importance that China places on long-term relations with both power centers. China deals very extensively with companies and governments at the state and city level in the USA. But under the Trump administration, the executive branch and the US Congress will continue to play the dominant role in the US policymaking toward China.

By contrast, China’s EU policies reflect the wide diversity of countries and institutions across the European continent, with China especially mindful of how these differences can work to its advantage. Europe’s diminished economic growth has also enabled China to capitalize on its growing financial and economic weight. But this underscores the European Union’s need to ensure that the equities of its members are protected at a time of economic vulnerability in much of Europe, even acknowledging the differing interests of various states and firms.

China’s expanding economic profile

In the late 1990s, China first began to explore the possibilities of a “Going Out” strategy (走出去), much of it designed to heighten the profile and activities of leading state-owned enterprises (SOEs). The explicit purpose was to acquire energy and raw materials for China’s domestic development, with China increasingly in an ownership role. First begun under President Jiang Zemin, the program accelerated rapidly under his successor Hu Jintao, following China’s entry into the WTO. It resulted in a two-track strategy: extensive purchases and investments in lesser-developed but resource-rich regions and an extraordinary expansion in the export of Chinese consumer goods, especially to the developed world.

Fueled by its membership in the WTO, China’s economic transformation in quantitative terms has been staggering. The country’s GDP increased from \$1.33 trillion to \$10.86 trillion between 2001 and 2015. According to WTO data, China is now the world’s second largest economy in GDP terms; the largest merchandise exporter; and the largest source for outward foreign direct investment (FDI) among developing countries (as well as ranking high in imports and inward FDI).

As the Chinese economy continued to grow, there was a parallel expectation among Western firms for enhanced access into long-protected sectors of the Chinese economy,

including areas where the EU and USA enjoyed comparative advantage. Despite repeated Chinese pledges of increased receptivity to external investment, these pledges have frequently failed to meet expectations, leading both American and European trade organizations to voice increasing doubts about longer-term business prospects in China (EU Chamber of Commerce 2016; American Chamber of Commerce 2016).

Moreover, slowing economic growth within China has triggered intensive internal debate on the sustainability of the economic model that propelled China to the front ranks of global exporters. The country's revised economic strategy presumes movement away from export-led growth and toward longer-term industrial innovation and product development. But the after-effects of years of double-digit growth persist. Breakneck industrial expansion resulted in overcapacity in steel, cement, and other commodities, with Chinese SOEs increasingly looking to external markets to offload excess production.

As Europe confronts the prospect of continued sluggish growth and high unemployment, concern over the prospect of China unloading surplus products in Europe without reciprocal opportunities cannot be lightly dismissed. According to one European Commission senior official interviewed for this research, full market economy status could result in the loss of 200,000 jobs across Europe.

There are differing interpretations in the USA and Europe of the WTO protocol governing determination of market economy status. While the US officials have broached anti-dumping provisions in exchanges with Chinese counterparts, EU institutions have been discussing market economy status in greater detail. After some initial equivocation, the EU adopted a clearer policy stance. The European Commission declared that the five criteria for market economy status (MES) according to EU standards have not been met (2008). In a non-binding vote in May 2016, the European Parliament overwhelmingly rejected granting MES to China (Hufbauer and Cimino-Isaacs 2016). Heated discussions followed in Brussels and in European capitals over the summer.

In July 2016, the European Commission shifted the focus from the possible recognition of MES for Beijing to the development of a new European trade defense system that should be applied to any non-EU state, regardless of its political-economic regime and structure. EU Trade Commissioner Cecilia Malmström said there would be no distinction between market and non-market economies in future EU trade policy decisions. Commission Vice President Jyrki Katainen also underlined that the EU will have to adjust its system to that of the USA, which has tougher trade defenses against dumped and subsidized goods, and rely on international prices as a benchmark to determine whether a country dumps its products.

The centrality of economics, but what kind of economics?

European states—including Germany, France, and the UK—all have highly developed political and institutional relationships with the People's Republic of China. Over the past several decades, all 28 members of the current European Union established diplomatic relations with Beijing. China also began to pay increased attention to EU counterpart institutions. But the scope and character of these relationships have changed significantly in recent years, with regard to China's increased economic role in Europe, whether in trade and investment.

The European Union is now China's second largest commercial partner after the USA. Two-way trade reached 467 billion euros in 2014, with a trade deficit of 137 billion euros in favor of China. However, the situation varies greatly from country to country. Nearly all EU member-states run a trade imbalance with China, now including Germany, which had previously maintained a trade surplus. Poland, for example, has a tenfold trade deficit with China. In the nearly 40 years of China's "opening to the outside world," European countries with world-class multinationals have developed a long-term presence and deep relations with Chinese counterparts. But with Chinese foreign direct investment (FDI) in Europe moving to center stage in the China-EU policy agenda, reciprocal economic opportunity becomes an even more important policy concern.

Debate over the implications of increased Chinese investment also extends to German business elites, with growing attention to Chinese inroads into high technology sectors. The acquisition of Kuka, a German robotics firm, by China's Midea, a large appliance manufacturer, provides a relevant example. Approval of the transaction was slowed in the spring of 2016 following opposition by a number of German politicians, including Günther Oettinger, the EU's digital affairs commissioner, who called for non-Chinese bidders to step forward. In the end, no challenger came forward and Midea acquired 94% of Kuka.

A key supplier of technology brands, Germany is already the main European destination for Chinese FDI, with a total amount of \$10.8 billion in the first half of 2016. Concerns include the risks to sensitive German industrial and corporate data if acquired by Chinese conglomerates. German officials have recently adopted a tougher line. Berlin's Ambassador to China Michael Clauss said that it was "more or less impossible" for a German firm to invest in China through acquisition, while Germany has thus far only refused just one single Chinese investment, the semi-conductor manufacturer Aixtron (the Ministry of Economics withdrew its certificate of no objection) (Wu and Zhou 2016). In December 2016, the Committee on Foreign Investment in the USA (CFIUS) also decided to block Aixtron's acquisition in relation to its US subsidiary.

Although neither the EU nor any of the individual member states have developed the equivalent of CFIUS, there are moves in that direction, and it seems likely that these efforts will draw on the US practice. Over the past decade or more, CFIUS has identified potential national security risks of FDI applications in the USA, including the proposed 2005 acquisition of Unocal by CNOOC, one of China's major energy SOEs (Haider 2013). Although another SOE, ChemChina, was given a green light by CFIUS in August 2016 to acquire the Switzerland-based agribusiness firm Syngenta, there have been at least two rejections of pending cases. Philips' attempt to sell its lighting business to a Chinese consortium in early 2016 was blocked, and Tsinghua Unigroup withdrew from a \$3.8 billion investment in Western Digital after the deal was flagged during an investigation by CFIUS. By and large, however, EU member states have handled critical projects on an individual (and fairly confidential) basis. These highlight shortcomings in governmental oversight of Chinese business practices that need to be rectified.

In some cases, it is doubtful whether some cash-strapped European countries have viable alternatives to Chinese investment. Deals have been consummated all across Europe, with Chinese SOEs putting cash on the table for projects that many European

policymakers considered infeasible only a few years ago. Serbian Prime Minister Aleksandar Vučić, for example, has publicly expressed gratitude to China for helping to finance and build a high-speed railway between Belgrade and the Hungarian capital of Budapest (2015).¹

This trend has become even more pronounced since China launched its “Belt and Road Initiative” (BRI), first proposed by President Xi Jinping on a 2013 visit to Kazakhstan. China showed a strong interest in building or rebuilding portions of the European infrastructure, with particular attention to energy plants, utilities, airports, ports, rail lines, and highways. If BRI proves successful, it would transform Eurasia’s economic and political landscape. But BRI is also making a virtue out of necessity, as China seeks to manage the transition from a lower wage, export-oriented economy to middle income status. Though Chinese officials cloak these possibilities in the language of “win-win” cooperation, they undoubtedly grasp the geopolitical consequences, as well. China has therefore taken ownership (both literally and figuratively) of this strategy, which will be a central component of Xi Jinping’s political legacy.

Not surprisingly, there is widespread European interest in the potential for much enhanced economic collaboration with China. Hungary, Poland, and the Czech Republic have offered to welcome BRI projects. European harbors in Rotterdam and Antwerp have also established BRI taskforces. A press release from the Port Authority in Antwerp (2015) has highlighted the city’s role as a major trading hub, declaring that the city can play a potentially very important role in the land-based Silk Road Economic Belt and the ocean-going maritime Silk Road. In 2015, China also signaled its willingness to take part in the European Commission’s investment plan (the “Juncker plan”), raising expectations of a potential incorporation of BRI’s European destinations within a broader Chinese investment strategy.

BRI is therefore intended to expand China’s presence and influence among the needier, less developed areas of inner Asia while also taking advantage of the current weakness of various European economies, especially in Central and Eastern Europe. It will also provide opportunities for Chinese companies facing domestic slowdowns to extend their international footprint. Hence, there are questions being asked in Berlin and elsewhere: What is China seeking in Europe? Is there a larger design with regard to the strategic dimensions of some investments (Le Corre 2016a, b)? Or do assumptions of strategic intent obscure China’s own liabilities, including burgeoning debt burdens (especially among China’s SOEs), acute environmental degradation, pervasive corruption, income inequality, and industrial overcapacity?

The expansion of China-EU economic ties also increased calls for a free trade agreement. When these efforts appeared to stall in the fall of 2013, China and the EU opted for negotiations on an investment treaty. Currently, 26 European countries have signed individual investment accords with China. Pursuit of a multilateral agreement reflects the rising difficulties of European firms in gaining access to the Chinese market. The EU has indicated it will not consider entering Free Trade Agreement talks with China until completion of an investment treaty. (The USA confronts comparable problems in moving toward a Bilateral Investment Treaty with China.) A June 2016 EU-China joint communication drafted by the European side explicitly included a Comprehensive Agreement on Investment (CAI) as an objective. EU officials assume

¹ Remarks at Brookings symposium, September 16, 2015 (Serbia is not a member of the EU).

it will be a slow process, but China has at least acknowledged the need for a long-term arrangement.

Summit diplomacy: comparing American and European approaches

The EU and the USA have both made major political commitments to annual diplomacy with China. The latest EU-China summit, held in Beijing in July 2016, was the 18th such meeting. The US equivalent (known under the Obama administration as the Strategic and Economic Dialog) does not have as extensive a policy lineage, but it serves a comparable purpose: a shared readiness to address a wide spectrum of economic and foreign policy issues, with participation by the responsible policy officials on both sides. On the US side, this process included under President Obama approximately two dozen cabinet-level officials and agency heads. The EU-China summits include the presidents of the European Council and the European Commission and numerous other senior officials. Both sets of meetings are replete with long recitations of “policy outcomes” that presumably attest to the substantive import of the discussions. Even acknowledging the forcing function such meetings provide relevant policy bureaucracies, major policy breakthroughs are exceedingly rare. But the political investment in these mechanisms very likely ensures that they will persist in future years, though possibly in a somewhat different form.

To advance its policy objectives, China has sought to manage its relationships with Europe in multiple ways. First, it has increased its presence and influence in Brussels, headquarters of the European institutions. China’s visibility has been enhanced through media coverage, cultural events, educational exchanges, and sports competition. The number of think tank seminars organized or funded by the Chinese Representative Office to the European Union has also increased significantly. Second, it is also sustaining strong links with Germany, France, and the UK, using a mix of political contacts, business connections, and soft power means. Third, it has developed a reliable group of friends through the “16 + 1” mechanism that focuses on the EU’s newer members, many of whom are struggling economically, as well as a handful of non-EU countries in the Balkans, including Serbia, Albania, Macedonia, and Montenegro. (The last such meeting took place in Riga, Latvia, in November 2016.) China has also sought to use its strong financial commitment to Greece to distance Athens from growing criticisms within the EU of Chinese actions in the South China Sea.²

China’s BRI initiative thus has direct implications for Europe. Fourteen European countries led by the UK, France, Germany, Italy, and later Poland also joined the Beijing-led Asian Infrastructure Investment Bank (AIIB) in 2015 as founding members, with some US officials voicing clear discomfort over these moves. The new institution has joined other multilateral banks such as the Asian Development Bank, the World Bank, and the European Bank for Reconstruction and Development (EBRD) to finance new infrastructure projects across Asia.

² Along Hungary and Croatia, Greece was apparently one of three EU members who tried to influence the EU to not issue a joint declaration after the arbitration tribunal’s ruling. Prime Minister Alexis Tsipras had a very successful visit to Beijing in June, weeks after his government agreed to grant China’s COSCO management of Piraeus harbor.

China's increased efforts to cultivate Europe began in 2008. This included a focus on France (which celebrated the 50th anniversary of diplomatic relations with the PRC in 2014), Germany (China's top economic partner), and other Western European countries, such as Italy, Greece, and Portugal. The courting of Eastern Europe started more recently through investments in Hungary, Poland, and Romania. Many East and Central European states are turning to China for investment under the 16 + 1 mechanism, a forum originally established to encourage dialog between the region and China (Le Corre 2016a, b). Many envision BRI as a major economic opportunity for Central and Eastern Europe, hoping to see China establish special economic zones. More specifically, some countries see potential cooperation with China's western regions as an opportunity to increase business connections with regions outside the European zone.

In the latter years of the Obama administration, larger EU members such as Germany, France, Italy, and Poland appeared intent on engaging jointly with China on important governance issues that aligned these countries more closely with the US policy agenda. Germany's Chancellor Angela Merkel was at the core of this new policy. Backed by Berlin and others, the EU released statements in support of the international court's decision on the South China Sea. The EU's High Representative for foreign affairs and security policy, Federica Mogherini, also sought to engage China on counterterrorism, cybersecurity, and anti-piracy issues. At the most recent EU-China summit, Donald Tusk, the European Council president, specifically referred to a "rule-based international order, which is in the common interest of China and the EU (2016)."

However, needier EU member states do not have substantial latitude in deflecting Chinese entreaties. Some countries simply must welcome Chinese investors, which puts them in a weaker position in defending core values of international order. China is therefore able to rely upon Hungary, Croatia, Serbia, and other Central and East European partners to dilute the content of EU policy statements critical of Chinese external behavior.

Although it frequently states the opposite, the Chinese leadership clearly sees advantages in a divided Europe because it means a weaker West. This applies to transatlantic economic cooperation as well as international security. For example, during the Transatlantic Trade and Investment Partnership (TTIP) discussions, Beijing sent emissaries to Europe to try to influence the decision process, viewing such a partnership as an anti-China agreement (Otero-Iglesias 2013). TTIP talks remain at a standstill, with no appetite for it on either side of the Atlantic.

Implications for the US strategy and for transatlantic relations

As Europe and the USA both contemplate the implications of a much more powerful China, they have yet to achieve agreement on sustained strategic cooperation. This is less a matter of disinterest on either side or of sharply divergent policy goals, and more a question of the focus of EU and US policymaking. Europe and America are both highly consequential economic actors, and they have a shared interest in upholding a rule-based international order, though they might disagree on some of the particulars. The question is whether there is sufficient political will on both sides of the Atlantic under current leaderships to elevate the importance of China on the EU-US policy agenda.

The absence of sustained efforts to reconcile and (ideally) to coordinate the US and EU strategies under the Obama administration reflected the differing interests and policy preoccupations of the USA and Europe. Though the USA insisted that Obama's Asia-Pacific rebalance was not China-driven, issues pertaining to China hovered over the policy from its very outset. Pursuit of accommodation with China thus presumed that Beijing's longer term goals would not disrupt the existing regional order.³

Though Europe also cares deeply about its long-term relations with China, there is no outright equivalence between the US and EU strategy. Europe's dominant concerns about China are twofold: the terms of economic relations and the extent to which China is prepared to adhere to a conception of a rule-based order acceptable to the EU. These were not dissimilar from the preoccupations of the USA under Barack Obama. However, President Trump's repeal of the Trans-Pacific Partnership negotiated under the Obama administration highlights important shifts in the US policy, including the new president's strong preference for bilateral trade deals over multilateral accords.

President Obama consistently saw a larger strategic purpose in the TPP. He argued that it was "more than just a trade pact; it also has important strategic and geopolitical benefits...[and] in our shared security and in universal human rights." (ASEAN Business and Investment Summit 2015) Obama declared "Without this agreement, competitors that don't share our values, will rewrite the rules for the global economy. They'll keep selling into our markets and try to lure our companies over there; meanwhile they're going to keep their markets closed to us." (Weekly Address: Writing the Rules for a Global Economy 2015).

Although his campaign threats to impose onerous tariffs on China have not materialized, Donald Trump seems intent on a redefinition of international trade rules. He struck a much more offensive note during the presidential campaign, repeatedly accusing China of currency manipulation and unfair trade practices. He continued these attacks as President-elect and in December 2016 surprised many by his unexpected telephone conversation with Taiwan's President Tsai Ing-wen, the first direct communication between the leaders of the USA and Taiwan in close to forty years. President Trump has since reaffirmed the United States' commitment to a 'One China policy'. However, he also faulted China for its conduct in the South China Sea. Trump claims that China has consistently violated its commitments under the WTO and during the campaign threatened to impose tariffs up to 45% on some Chinese products. China exports about \$4 worth of goods to the USA for each \$1 of goods that it imports, presumably diminishing its ability to retaliate should Trump make good on his threat. But the implications would be hugely disruptive for other major US trade partners in East Asia that are key participants in global supply chains (Bradsher 2016).

Trump's sentiments seem comparable to concerns voiced within the EU. China has taken advantage of economic competition within Europe, as well as between the USA and Europe. The question is whether compatible approaches can develop between the EU and the new US administration. There is a clear need to enhance cooperation and policy coordination, thereby enabling development of more effective and sustainable rules of the road for future economic relations with China. Such a process would thereby provide increased incentives for China to agree to mutually acceptable outcomes with both Europe and the USA.

³ For a careful exploration of these arguments, consult Bader (2016).

In broad strategic terms, therefore, there is no major divide between the USA and Europe on policies toward China. There are undoubted differences of emphasis within major policy bureaucracies, in particular between foreign ministries and defense ministries, but this is not an uncommon phenomenon. The increased convergence between European and American policymakers on the rules of the road for economic engagement provides a potential basis for addressing parallel concerns. Arguably, the EU side is more concerned about the social and economic impact of Chinese products on the European market (including consumer and worker protection rules), while the US side is worried about the growing security challenges posed by China. But President Trump's focus on the US job losses that he attributes to China seem to align with European concerns.

The USA and EU both view China as a principal beneficiary of globalization. But many in the West are starting to question whether the advanced economies are benefitting in commensurate fashion from these transactions. Failure to push through the TTIP agenda under Obama is partially attributable to US-EU leaders not explaining the benefits of such a trade deal. By contrast, China increasingly extols its desire to deepen the globalization process, deeming the "Belt and Road Initiative" as part of its provision of public goods for the international community.⁴ Xi Jinping also characterizes BRI as a means to stimulate economic growth across Asia. In addition, Chinese leaders argue that enhanced economic links will ameliorate suspicions in the West about the growth of Chinese power. But neither the EU nor the USA has major economic assets at risk in inner Asia.

To achieve outcomes that will address EU and US concerns, both sides must pursue shared, coordinated objectives. Without such efforts, political space will be created that China will be only too eager to exploit. In the absence of fuller efforts to develop a more coordinated strategy between the EU and the USA, the likelihood of China responding meaningfully to the concerns of the major industrial economies will increase. This issue must therefore be faced directly on both sides of the Atlantic.

Former Obama administration officials argue that the USA pursued a coordinated approach in its dealings with European counterparts. Kurt Campbell, ex-US assistant secretary of state for East Asian and Pacific affairs, contends that European partners were kept fully informed about the Asia-Pacific rebalance through regular contact and yearly meetings at the assistant secretary level. As Campbell has argued, "coordinating U.S. and European approaches in promoting liberal values is especially useful because it elevates what might otherwise appear to be ideological American criticisms to appeals to widely held international values." (2016).

To many in Europe, America's rebalance strategy appeared to relegate Europe to a lower priority in the US foreign policy. In President Obama's second term, relations improved (partly because of growing security crises on Europe's borders), but the Obama presidency was never considered fully collaborative by many in Europe, though this led some observers to overplay the idea of a "split" between the USA and Europe on China (Corr 2016). The election of Donald Trump, who during the campaign made stern comments about Europe, may make things even more complex and perhaps lead China to be even more engaged with Europe.

2017 therefore presents a clear opportunity to revisit transatlantic cooperation and coordination in relation to China. Major changes in political leadership are taking place on both sides of the Atlantic. Following the transition to a Trump administration in January

⁴ See, for example, Jinping (2016).

2017, elections are under way in France and Germany. After the failure of the former Prime Minister Matteo Renzi's in the December 2016 referendum on constitutional reform, Italy will face a parliamentary election of its own. In the UK, Prime Minister Theresa May is struggling to negotiate with other European leaders the terms of Britain's exit from the union and a number of other countries remain heavily indebted and fragile financially.

Instead of retreating into their separate policy deliberations, Europeans and Americans have an opportunity to begin a deeper dialog on longer-term relations. The Asia-Pacific region should figure prominently in this process. The major European powers have tried to speak with one voice on the South China Sea, the North Korean nuclear and missile threat, humanitarian crises, anti-piracy, and cybersecurity. These all pertain to the role of High Representative Federica Mogherini, who heads the European External Action Service (EEAS) and has been engaging with the US counterparts on Asia-Pacific issues. On February 9th, 2017, Mrs Mogherini met Secretary of State Rex Tillerson. It is too early to say whether regular bilateral exchanges between French, German, Italian, and British officials and their US counterparts responsible for Asia and the Pacific will be maintained in the so-called Quint format.

But the largest challenges pertain to economic relations between China and the USA and between China and Europe. Without enhanced transatlantic coordination, the same problems that have bedeviled US and EU relations with China will recur and could grow more acute. As the new US administration weighs its policy priorities, the transatlantic dimension of strategies toward China warrants more careful attention, including at senior leadership levels.

In the wake of Brexit, France and Germany are positioned to assume the lead in EU relations with China. Both nations have long experience in working in China and with China, and they both have credibility in China that can complement the EU's foreign policy voice. In light of the UK's new position, another AIIB-like fiasco needs to be avoided within the EU and across the Atlantic through regular consultations. The quintet, which annually brings together senior officials of the USA and four European nations and the EEAS officials responsible for Asian affairs, should include both security and economic dimensions.⁵

European and American policy coordination will be essential to any successful incorporation of China within a rule-based international order. The following priorities in geo-economics and geopolitics, although not exhaustive, illustrate how such an effort can build upon existing mechanisms of bilateral relations with China, while allowing the US and EU agendas to better reinforce one another. However, the prospects will depend heavily on the Trump administration's willingness to commit to full consultations with the EU on these issues.

Geo-economics: investment, AIIB, BRI, and cybersecurity

The latest reports of the EU and American Chambers of Commerce in China both emphasize that China's emergence as a global investor necessitates addressing the cross-border investment expectations of American and European multinationals and of Chinese companies (Dollar 2016). In addition to EU-level coordination, this process should include creation of CFIUS-like committees within Europe so that governments

⁵ France, Germany, Italy, and the UK. It remains to be seen if such a mechanism will be continued under new governments.

on both sides of the Atlantic can develop parallel strategies, especially while each currently discusses an investment treaty with China.

Policy coordination should also explore the AIIB's potential as a multilateral lending institution, alongside the World Bank, the ADB and the EBRD. While the EU is a member of the bank and the USA is hesitant to join, the latter should at least consider engaging the AIIB in a formal partnership.

There is also an overdue need for a serious transatlantic discussion on BRI. EU members need to ensure a coherent approach toward BRI, and so far, the USA has not been sufficiently attentive to the initiative's longer-term implications. Heightened US awareness should also help advance the EU goal of joining the annual East Asia Summit as an observer.

Finally, recent success (both in bilateral dealings and in curbing the actions of bad actors within China) in eliciting Chinese cooperation on cyberespionage for commercial advantage highlights the need to sustain these processes. Coordinated policy approaches across the Atlantic will impart seriousness of purpose to the Chinese and provide China with clear incentives to build on this much improved record.

Geopolitics: multilateralism, the international order, and climate

The transatlantic partners should ensure that the full spectrum of Asia-Pacific issues is addressed at all levels in the G-7, in UN meetings, and in other multilateral forums. While the USA necessarily has a larger voice in the domain of regional security, this should not be to the exclusion of Europe. If anything, positions clearly articulated by the EU will lend far greater clarity and credibility on these issues.

US and EU leaders should also stress the non-negotiability of common principles, such as freedom of navigation and overflight rights, and respect for the UN Convention on the Law of the Sea (UNCLOS). As China claims it adheres fully to these principles but objects to US interpretations, much more needs to be done to bridge this policy divide. In this context, the unwillingness of the US Senate to ratify UNCLOS continues to limit the credibility of the US policy.

The transatlantic partners should also build on the success of the 2015 Paris climate conference and China's commitment to cap emissions by 2020, to foster a trilateral discussion based on the USA-China accord of late 2014, if the Trump administration is willing to engage in this field.

The need for much closer policy coordination across these domains is clearly evident in light of contradictory and often troubling domestic and external policy developments within China pursued under Xi Jinping. Europe and the USA have ample incentives to narrow areas of potential divergence and to weigh responses if more optimistic assessments of China's rise are not validated. The political transitions on both sides of the Atlantic are providing a unique and necessary opportunity for American and European leaders to strategically engage on issues of vital importance to both and to the future international order as a whole.

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