



A European strategic “third way?” The European Union between the traditional transatlantic alliance and the pull of the Chinese market

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Abstract

The European Union (EU), China, and the United States (US) are the three major powers in the world today, and the three have a special relationship of cooperation and competition. The Biden administration has reached out to European allies to create a common front to counter Beijing. While the EU’s China policy has hardened in recent times and increasingly resembles that of Washington, the EU has never confronted Beijing the way the US does. Europe does not want to have to choose between America and China, preferring a situation in which Brussels cooperates with Washington on issues of common concern related to Beijing while at the same time seeking closer commercial ties with China so as to support Europe’s export-driven economy. The eventual ratification of the EU-China Comprehensive Agreement on Investment (CAI), a deal—currently frozen—announced on 30 December 2020, before the inauguration of the new Biden administration, could be a litmus test for EU efforts at finding a “third way” between the US and China, giving meaning and content to Europe’s aspirations for “strategic autonomy.”

Keywords European Union · China · United States · Strategic autonomy · Trade and investment

1 Introduction

The European Union (EU), the People’s Republic of China (PRC or simply China), and the United States (US) are the three major powers in the world today, and the three have a special relationship of cooperation and competition. Since the arrival of Joe Biden in the White House, transatlantic relations have markedly improved, while

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Sino-European relations are at a low point, in particular after the imposition by Beijing of sanctions on European individuals and organizations in March 2021. These developments, coupled with growing tensions between China and the US, are having an impact on Sino-European ties, which have grown in quantity and quality over the past several decades.

The EU-China relationship is fraught with both opportunities and challenges but is also conditioned by the US, Europe's traditional ally. Washington seeks, in fact, to influence the evolution of Sino-European relations in a direction more favorable to its strategic interests. As a result, the EU tends at times to lean more towards the transatlantic alliance, while at other times Brussels fosters relations with Beijing at the expense of the US. The development of Sino-European ties is helped by Chinese leaders' long-standing support for Europe's key integration initiatives and aspirations for "strategic autonomy"—a dynamic that has the potential to divide the US and the EU (European External Action Service 2016). China has traditionally exploited relations with Europe to drive a wedge in the transatlantic alliance and weaken the US's power.

Recent declarations by EU officials seem to confirm Europe's intention to chart a third way" between Washington and Beijing (Emmott et al. 2021). In December 2021, French President Emmanuel Macron encapsulated his priorities for France's presidency of the EU in 2022 with the motto, "Recovery, power, belonging," declaring that France's aim was "to move towards a Europe that is powerful in the world, fully sovereign, free in its choices and in charge of its own destiny" (France 24 2021).

The scholarly literature has largely overlooked the US-China-EU strategic triangle and Europe's attempts at charting a third way between Washington and Beijing, with a few exceptions (Men and Shen 2014; Ross et al. 2010). A large body of works has examined the US's complex relationship with China (see, for instance, Hass 2021; Allison 2017; Ikenberry et al. 2015; Steinberg and O'Hanlon 2014). Less studied but growing is the literature on Europe-China relations (see, for instance, Michalski and Pan 2017; Zhou 2016; Wang and Song 2016; Shambaugh et al. 2008; Kerr and Liu 2007). A few attempts have been made at comparing US and EU policies towards China and Europe's strategic autonomy vis-à-vis Beijing, but those have been limited to a few issues, such as the proposal to lift the EU arms embargo on China—an initiative put forward by some European elites in the period from 2003 to 2005 and shelved in 2006 following pressure from the US (Brown 2017; Aggarwal and Newland 2014).

This article aims to unpack the complex EU-China-US triangle by examining recent developments. Its focus is on the EU, which is increasingly torn between growing calls for enhanced transatlantic cooperation on China following the election of US President Joe Biden and the pull of the Chinese market. This conundrum is exemplified by the formal conclusion of the EU-China Comprehensive Agreement on Investment (CAI) at the end of December 2020. If ratified, the CAI will boost trade and investment relations between the EU and China and have profound implications for Washington, which is actively working to create a common front with European allies to counter Beijing's increased self-confidence and assertiveness. Although it faces an uncertain future, the CAI was announced only a few weeks

before the Biden administration entered into office as a sign of Europe's determination to promote its "strategic autonomy" and a message to the US that transatlantic cooperation on China cannot be taken for granted.

This article asks the following: Are the US and EU on the same page with regard to China? Will the EU follow the US in enforcing a containment policy towards Beijing, joining efforts undertaken by the administration of former US President Donald Trump and continued by Joe Biden to unleash a trade and technological war against Beijing with the aim of permanently subordinating the Asian giant to the West? Or will the EU continue its engagement policy towards Beijing, seeking to promote Europe's economic interests and further its aspirations for "strategic autonomy?"

2 Are the EU and the US aligned on China?

On the surface, the EU's and the US's China policies seem to be aligned. In the economic realm, both Washington and Brussels accuse China of withholding its domestic market for its national champions and restricting foreign companies' access to it, subsidizing domestic competitors, and failing to protect intellectual property rights. Moreover, both the EU and the US have voiced criticism on issues ranging from China's Belt and Road Initiative (BRI) and Chinese investments in the West to the challenge posed by Beijing state-backed companies to America's and Europe's competitiveness and prosperity.

In the political realm, the transatlantic allies are committed to making China a responsible stakeholder in the global system and promoting respect for human rights and fundamental freedoms, good governance, and the rule of law in China. The EU and the US tend to focus their cooperation on advancing a set of rules and principles dear to Western public opinions. For instance, in March 2021 the US and the EU—along with Canada and the United Kingdom—placed sanctions on Chinese officials because of the violation of human rights in the autonomous region of Xinjiang.

Alongside many similarities and a natural tendency to align on China policy, the transatlantic allies also show some important differences, not to mention the existence of diverging EU-US interests and competition for China's market shares. The most striking difference is possibly the way Brussels and Washington have approached Beijing. While the EU has tended to engage China at the bilateral level, the US has traditionally framed its China policy in the context of Washington's system of alliances in Asia and its commitment to regional security (see Cha 2016).

US policy in the Indo-Pacific is now clearly aimed at keeping China in check. China's rise and its growing assertiveness towards its neighbors have in fact led the US to step up its military involvement in the region. US President Barack Obama announced a policy of re-balancing towards the region—the so-called "pivot"—during his visit to Asia in November 2011. This stance was subsequently backed by the issuing of the 2012 Defense Strategic Guidance in January 2012, which included plans to realign US forces and set up a new US Marine Corps base responsible for the South China Sea and the Indian Ocean in Darwin, Australia to keep China's claims in the area under control. US President Donald Trump's strategy for the region—renamed the Indo-Pacific and enshrined in Washington's *National Security*

Strategy (NSS) published in December 2017—builds on Obama’s re-engagement with Asia, toughening, however, the US position against China. The Trump administration would consider the Indo-Pacific region the most strategically important geographical area and where China challenges America’s leadership and the rules-based order (Trump 2017). In June 2019, the US Department of Defense issued the *Indo-Pacific Strategy Report* (US Department of Defense 2019), targeting an increasingly powerful China as the most ominous threat to US security interests in the region—an approach that continues under US President Joe Biden.

The EU has framed its China policy differently from the US, focusing more on the bilateral level. Some efforts have been made in the past to place the EU’s China policy in the context of Asian security. For instance, the *Guidelines on the EU’s Foreign and Security Policy in East Asia*—a document issued by the EU in 2007 and revised in 2012 to include developments in the South China Sea (Council of the European Union 2012)—do enshrine the EU’s China policy in the context of regional dynamics and the role of Washington as guarantor of Asian security. However, the *Guidelines* have not been followed by similar initiatives and in the last decade the EU’s China policy has continued to be developed in a bilateral fashion. Concerns for Asian security have been acted upon by some EU member states—in particular France—which have sailed naval vessels in the South China Sea in recent years to support US-led freedom of navigation operations. Moreover, France, Germany, and the Netherlands have each adopted their own Indo-Pacific strategy. In September 2021, the EU published its strategy for the Indo-Pacific region, which is clearly not framed in anti-China/containing China terms. The document asserts that “the EU’s approach to the region is one of cooperation not confrontation,” thus distancing itself from the approach adopted by Washington (European Commission and High Representative of the Union for Foreign Affairs and Security Policy 2021).

Besides the regional context, it suffices to analyze the words employed by the US and the EU when describing their respective China policies to see how different their approaches are. For instance, members of the Biden administration have declared that Washington will confront, compete, and cooperate with China depending on the issue. Kurt Campbell and Jake Sullivan—National Security Council Coordinator for the Indo-Pacific and US National Security Advisor in the Biden administration, respectively—laid down the concepts of “challenge and co-existence” with regard to China in an influential article published in *Foreign Affairs* (Campbell and Sullivan 2019).

The words used by members of the Biden administration bear resemblance to the China policy of the EU enshrined in *EU-China: a strategic outlook*, published in March 2019. In it, the European Commission and the High Representative of the Union for Foreign Affairs and Security Policy put forward an approach towards Beijing based on cooperation, competition, and rivalry (European Commission and High Representative of the Union for Foreign Affairs and Security Policy 2019). More specifically, the EU defines China as a partner (with which to cooperate), an economic competitor (with which to coexist), and a systemic rival (a challenge), given the authoritarian nature of the Chinese regime.

However, the EU never uses confrontational terms with regard to China. This is in stark contrast to the US, which has instead openly used hostile terms when

defining its policy vis-à-vis Beijing. For instance, in June 2021, US Defense Secretary Lloyd Austin issued a directive declaring China to be the “number one” focus of the US military (Garamone 2021). At the beginning of October 2021, the Central Intelligence Agency announced the formation of a new China Mission Center and issued a statement that referred to the Chinese government as a “key rival,” underscoring the Biden administration’s focus on Beijing as a top foreign policy priority and a formidable global competitor to the US (Barnes 2021). While Brussels has hardened its position towards Beijing in recent years, stepping up its criticism of China’s unfair trade practices and violation of human rights, it has never confronted Beijing the way Washington does.

3 The EU’s approach

The development of EU-China relations has been facilitated by the absence of conflict issues that could bring the two sides to a military confrontation—unlike the case of US-China relations, in which the Taiwan factor and the US commitment to Asian security could lead to a military stand-off. China is not perceived by the majority of EU policy makers as an immediate military threat, nor Beijing is considered as a potential enemy (Kirchner et al. 2016). However, due to its non-democratic nature, the Chinese regime is viewed with suspicion by European public opinion, which raises questions as to what use Chinese leaders will make of their country’s increased capabilities.

Economic considerations have traditionally been the main driver of the Sino-European relationship (Farnell and Crookes 2016). Since 2017, China and the EU have traded more than €1.5 billion in goods each day. The EU is now China’s most important trading partner, although China ranks number two for the EU, after the US, if both trade in goods and services are considered. Between 2007 and 2017, total EU-China trade rose dramatically from around €306 billion to roughly €573 billion, according to the European Commission (2021). In 2017, China had a share of 11% in extra-EU exports of goods (€198 billion), and in extra-EU imports of goods China was the largest partner with a share of 20% (€375 billion). The result was an EU trade deficit of €177 billion with China (European Commission 2021a).

The COVID-19 pandemic which began in early 2020 led to a strong decline in trade in the first and second quarters of that year. Between the first quarter of 2019 and the second quarter of 2021, the EU’s share of imports from China increased by 4%. Due to China’s growing share of imports and exports, in 2021 Beijing overtook the US as the EU’s largest trade in goods partner (Eurostat 2021). However, while the EU imported fewer goods from the US, the transatlantic relationship remains very strong, particularly when services are included in the statistics (Hamilton 2021).

In recent years, there has been a surge of Chinese investments in the old continent. According to the China Global Investment Tracker, a joint project between the American Enterprise Institute and the Heritage Foundation, China invested nearly \$164 billion in Europe between 2005 and 2016. During that same period, it invested \$103 billion in the United States. According to the Rhodium Group, a New York

based consultancy, Chinese FDI in the EU has increased by almost 50 times in only eight years, from less than \$840 million in 2008 to a record high of \$42 billion (€35 billion) in 2016. (Hanemann et al. 2019).

Growing imbalances between Europe and China led France, Germany, and Italy to ask the European Commission, in February 2017, to rethink the rules on foreign investment in the EU. This led to the adoption of a screening mechanism which is intended to help the European Commission and EU member states to evaluate whether a foreign investor is in reality controlled by a third country government (European Commission 2017). This is clearly aimed at Chinese state-backed enterprises. The screening mechanism makes it more difficult for foreign investors to acquire expertise and technology that could be used to produce goods sold at lower prices. The adoption of the screening mechanism was a message to Beijing about opening up access to its markets at a time when the two sides were negotiating a bilateral investment treaty, which was formally concluded in December 2020 as the Comprehensive Agreement on Investment (CAI).

In the last decade, a growing number of scholars and policy makers have begun to argue in favor of more conditionality in EU-China relations, in particular on economic and trade issues (Oertel 2020; see also Vogt 2012). In the same vein, the European Parliament, a number of national parliaments, and some political forces within EU member states have stepped up criticism vis-à-vis the Chinese regime and its trade practices, in particular with regard to China's lack of reciprocity. Beijing restricts, in fact, foreign investment in its domestic market for almost all sectors. European businesses consistently face difficulties in entering the market, while Chinese companies often receive help from the government through, for example, subsidies or simpler procedures. Further, foreign companies, particularly those with recognised brands and technologically advanced products, are required to share their expertise before they are allowed into the market at all. European investors routinely point out the regulatory and administrative burden that foreign companies face in China. While the country is the EU's second largest trading partner, it has significant investment barriers, including joint venture requirements, market entry restrictions, technology transfer obligations, and unjustifiable technical regulations.

China represents a serious economic and trade challenge to Europe due to its state-dominated economy and its unfair trade practices, which have contributed to de-industrialisation and a declining standard of living across some parts of the old continent—a situation that European countries share with other developed nations, including the United States. This is made clear in a policy paper on China issued by the Federation of German Industries (BDI) in January 2019. The document—which influenced considerably the EU's policy paper on China issued in March 2019—argues in favour of a more assertive position vis-à-vis Beijing on trade and investment (Federation of German Industries 2019). At the same time, numerous industrial and business associations across Europe continue to be attracted by China's huge domestic market and its expanding middle class. These represent a formidable opportunity for many European companies, some of which have shifted production to China to take advantage of lower production costs and global supply chains.

The EU's push against unfair Chinese trade and economic practices has, however, not led the EU to squarely align with the US against China. Moreover, the

domestic politicisation of China and the consequent linkages between commercial and political issues have remained significantly less marked than in the US.

In recent years, Brussels has increasingly criticized China for playing into the bloc's divisions. China is often helped in this by national elites more eager to develop relations with Beijing on a bilateral basis than through the EU framework. An example of such an approach is the creation of the China-Central and Eastern European Countries (China-CEEC) grouping founded in Budapest in 2012 to push for China-CEEC cooperation outside the EU framework and to promote China's BRI. Since 2019 the grouping has comprised 17 European countries (including 12 EU member states) and China; it is thus commonly referred to as the 17 + 1.

At the same time, China has come to support the EU's integration process, including key initiatives such as Galileo—the EU's global navigation satellite system alternative to the Pentagon-controlled GPS—and the European common currency. This backing for European integration goes back to the Cold War period, when Chinese leaders perceived the establishment of closer ties with Europe as important for advancing China's modernization process (Deng 1994).

Besides Chinese leaders' declarations in support of a stronger and united Europe, Beijing has concretely supported the euro, which is the only serious alternative to the dollar, and has diversified its foreign exchange reserves—the world's largest—so that it now holds over one-third in euros and just slightly more than half in dollars. Since 2011, Beijing has swapped dollars for euros, a trend that is likely to continue in the future. China's diversification strategy signals that the dollar is no longer the world's only reserve currency and that this is important to Beijing, which is trying to internationalize its currency as it seeks to reduce its dependency on the US's economic cycle and monetary policy.

Europe has, in turn, supported many of China's monetary ambitions. Europeans unanimously backed the decision by the International Monetary Fund (IMF) in December 2015 to include the renminbi in the basket of currencies that determines the value of special drawing rights (SDR), an international reserve asset that includes the US dollar, the euro, the British pound, and the Japanese yen. The decision was clearly political. The EU wanted to send a friendly message to China and recognize what Beijing had done to support the euro during the euro crisis of 2009–11, when the European common currency became the target of speculative attacks that mainly stemmed from Wall Street-based banks and hedge funds. During the period, Chinese leaders intervened on various occasions to reassure the financial markets by buying eurozone bonds.

Europe's decision to support the renminbi's inclusion in the IMF's currency basket was also taken in defiance of Washington, which had argued for years that the Chinese currency should be included in the SDR only if China opened its capital account, allowing companies, individuals, and banks to move money without overbearing rules and government approvals; let its currency float freely; and loosened government control over its central bank. None of this has happened. Nevertheless, Europe supported the inclusion of the renminbi in the IMF's currency basket as a further sign of its "strategic autonomy" from Washington.

4 The US's approach

The US's China policy has traditionally included both elements of containment and engagement (Zhao 2021). Advocates of the former position point to China's accumulation of military power, its growing economic strength, and its increasingly nationalistic and adversarial postures on regional issues—in particular over Taiwan and the territorial and maritime disputes in the East and South China Seas—as reasons for advocating a firm policy of restricting the projection of such power. To those arguing for such a policy of containment, lenient initiatives undertaken with the aim of supporting China's transformation and/or changes in the domestic arena merely embolden the Chinese Communist Party in its authoritarianism at home, encourage further nationalistic posturing abroad, and, by facilitating the growth of China's trade surplus, provide resources for additional arms development. Those who endorse this approach consider the acquisition of increased capabilities by China as something that will tilt the balance of power in Asia in Beijing's favor in a situation where there could be future tensions between the US and China, in particular over Taiwan and/or in the South China Sea (Chan 2012; Friedberg 2011).

Those advocating in favor of engagement argue that China spends less as a proportion of GDP on defence than the US and that China cannot rely on a system of alliances like Washington, though they recognize that the PLA has made some dramatic improvements in recent years. In the view of those who support an engagement policy, the US and its allies should continue to cooperate with China on issues of global concern, such as climate change and energy security—notwithstanding the authoritarian nature of the Chinese regime (see, for instance, Zhang and Lebow 2020).

Since the advent of US President Donald Trump, the reasons for engagement have thinned, laying the ground for a more hostile US China policy that is also based on the assumption that Beijing is pursuing a long-term strategy to displace, if not replace, the US-led global democratic order with a Communist China-led global authoritarian order (Doshi 2021; see also Prestowitz 2021). To this perceived challenge, Trump responded by unleashing a trade and technology war, seeking to subordinate Beijing to US interests—an approach that has not changed with the arrival of Joe Biden in the White House.

On 4 October 2021, the Biden administration unveiled its China trade strategy. US Trade Representative (USTR) Katherine Tai declared that key elements of Trump's China trade policy will remain intact and that the US will not take any tools, including the imposition of additional tariffs in the future, off the table (Office of the United States Trade Representative 2021a, b). Core elements of the Biden administration's strategy include enforcement of China's existing trade obligations, including those from the US-China Economic and Trade Agreement—or “phase one” agreement—negotiated under Trump (Office of the United States Trade Representative 2019).

The US is essentially asking China to substantially cut the US's bilateral trade deficit, reduce tariffs on US goods, and reduce subsidies for emerging industries. Washington also wants to restrict China's ability to invest in or acquire US

companies and start-ups in sectors identified by Beijing in its so-called Made in China 2025 plan, such as robotics, aerospace, and artificial intelligence (US National Counterintelligence and Security Center 2021). China has responded by imposing tariffs on US products and by blacklisting some US companies from doing business in China. Washington has adopted a tough approach vis-à-vis Beijing, seeking to change China's practices to boost US exports, protect intellectual property and the US's technological edge, and counter discrimination against overseas investors.

The more hawkish elements in Washington want to decouple the US economy from China through the imposition of tariffs, barriers to cross-border investment, and initiatives that would compel companies to break supply chains. For instance, the US has decided to blacklist Huawei, China's only world-leading advanced technology manufacturer, preventing US companies from buying its products. The source of friction is competition to build and deploy 5G architecture which will underpin a vast array of commercial and military technologies. Huawei has gained an undisputed edge in 5G technology over its Western competitors, attracting the ire of the US.

The US's tough approach towards China goes hand in hand with a deepening hostility among ordinary citizens toward a rising China that challenges US primacy—a hostility that enjoys, to varying degrees, bipartisan support in Congress. On 8 June 2021, the US Senate adopted the *Innovation and Competition Act*, a bipartisan piece of legislation designed to counter China through the investment of roughly \$250 billion in US technology, science and research. The bill labels China a strategic competitor in a number of areas, including trade, technology, and security (US Senate 2021). The piece of legislation offers the Biden administration a host of recommendations on how to work with Washington's allies on trade, technology, export controls, investment screening, and more. The Senate passed the legislation a week before President Joe Biden met with EU leaders in Brussels to repair transatlantic ties which had been severely damaged when former President Donald Trump was in office.

5 Transatlantic cooperation on China

The US-EU Summit Statement, issued on 15 June 2021, was largely devoted to China (White House 2021). A concrete outcome of the summit, a Trade and Technology Council was formally launched with the aim of fostering transatlantic cooperation on digital issues, technology, and supply chains; working on international standards development; and supporting collaborative research efforts (European Commission 2021b). A few months earlier, the Western allies had also taken steps to denounce China's human rights violations, imposing restrictive measures against Chinese officials over human rights abuses against the Muslim Uyghur minority in the Xinjiang region. However, the history of this form of cooperation shows that periods of alignment have been preceded—or followed—by times of divergence, including attempts, in particular by the EU, to promote ties with Beijing and advance Europe's so-called “strategic autonomy” at the expense of the US.

During the 1990s and early 2000s, the US and the EU pursued their own distinctive policies towards Beijing, with little coordination between Washington and Brussels. The result was a transatlantic rift on how to deal with a rising China that reached its apex in October 2003, when Brussels and Beijing agreed on a strategic partnership. This partnership included a proposal by some EU member states—supported in particular by France and Germany—to lift the EU’s arms embargo on China. The United States strongly criticized and opposed the move. On 2 February 2005, the US House of Representatives overwhelmingly voted (411-3) to pass a resolution condemning the EU’s moves toward lifting its arms embargo on China, threatening retaliation in transatlantic industrial and defence cooperation (US House of Representatives 2005). Pressure coming from Washington, coupled with growing uneasiness within various national parliaments and the European Parliament, convinced EU member states to shelve the proposal at the European Council in Brussels in June 2005.

Behind Europe’s approach to Beijing, including the proposal to lift the arms embargo, was the push for a more autonomous EU foreign policy as well as the idea that a sustained policy of engagement by the West would build trust and help China gradually transform into a liberal democracy. Those hopes were shattered by Xi Jinping’s accession to power in the early 2010s. The new Chinese leadership pursued a more authoritarian path domestically and increased Beijing’s self-confidence and assertiveness towards the rest of the world.

The US-EU Summit in November 2011 framed relations with China for the first time as a matter of concern for the transatlantic allies (White House 2011). A direct outcome of the summit was the joint EU-US statement on the Asia-Pacific delivered by US Secretary of State Hillary Clinton and High Representative of the Union for Foreign Affairs and Security Policy Catherine Ashton on the margin of the ASEAN Regional Forum (ARF) meeting in Phnom Penh in July 2012. The joint statement sent a clear political message addressed at China, indirectly criticizing its socio-economic and political system tightly controlled by the Communist Party (US Department of State 2012).

During the Obama years, various official US-EU dialogues were created, including an US-EU dialogue with the participation of the EU’s large member states (Germany, France, the United Kingdom, and Italy). The transatlantic dialogue initiated by the second Obama administration was eventually downgraded during the Trump presidency and then interrupted.

Notwithstanding the transatlantic spat during the Trump era, on 23 October 2020—a few weeks before the US presidential elections—Secretary of State Mike Pompeo and EU High Representative for Foreign Affairs and Security Policy Josep Borrell launched a new bilateral dialogue between the Deputy Secretary of State and European External Action Service Secretary General to be held in mid-November 2020. However, the dialogue lost much of its appeal since Donald Trump was defeated in the presidential election on 3 November 2020. The transatlantic dialogue on China under Trump was still conducted towards the end of 2020, though with a lower profile than planned. Following the victory of Joe Biden, Josep Borrell declared that “we are ready” for the Biden administration to engage with the EU on joint action against the challenges posed by Beijing, adding, “we can expect

the EU-US dialogue on China that we launched only last month to continue, with renewed energy, under the next administration” (Lau 2020).

When Joe Biden was inaugurated as the 46th US president, the conditions were ripe for launching a structured transatlantic dialogue on China. Support for such an initiative was found among the general public in America and Europe. *Transatlantic Trends 2021*—a project by the Bertelsmann Foundation and the German Marshall Fund which includes the results of surveys conducted in 10 countries and the US—shows that there is a strong foundation for transatlantic cooperation on China-related challenges (Bertelsmann Foundation and the German Marshall Fund 2021; see also Glaser and Mohan 2021).

It remains to be seen whether the recently launched US-EU Trade and Technology Council will initiate an era of cooperation between relatively equal partners, as the Europeans hope, or be mostly led and determined by the United States. The unilateral moves by the United States, with its withdrawal from Afghanistan in August 2021 as well as the signing of the AUKUS pact (a trilateral security pact for the Indo-Pacific region among Australia, the United Kingdom, and the United States, announced on 15 September 2021), without informing France and the EU do not bode well in this regard. The AUKUS pact has essentially squeezed Paris out of a submarine deal with Australia—an accord that had been hailed by the French establishment as the “contract of the century.”

US unilateralism has traditionally pushed Europeans towards advancing so-called “strategic autonomy,” including the promotion of ties with Beijing. It is no coincidence that the EU-China strategic partnership and Sino-European space cooperation were established during the early 2000s, when Europeans were in deep disagreement over the Iraq War. An issue that could trigger the next transatlantic rift over China is the CAI, an accord that if ratified would boost trade and investment relations between the EU and China as well as have profound implications for the United States.

6 The Comprehensive Agreement on Investment (CAI)

An agreement on CAI was reached in principle by Brussels and Beijing on 30 December 2020, after seven years and 35 rounds of negotiations (European Commission 2020). However, this is not the end of the process, which requires actual signature by China and the EU and ratification by the European Parliament. The announcement of the deal triggered intense debate, as the CAI has found both supporters and opponents inside Europe. It was hailed as a highly beneficial accord for world trade by China and as a breakthrough in locking in China’s hitherto opening-up and its concessions in the areas of “market access,” “level playing field,” and “sustainable development” by the European Commission but met with harsh criticism from the US, where the new Biden administration had yet to be inaugurated and saw in the agreement a victory for China in trying to divide the transatlantic allies.

The CAI is currently frozen due to the rift around the situation in Xinjiang, but the debate around it—and the eventuality of its ratification—is far from over. On 20

May 2021, the European Parliament voted, by an overwhelming majority, to suspend its ratification (European Parliament 2021b). The move came after Beijing had imposed retaliatory measures against EU members of parliament for their support of sanctions against Beijing for its oppression of its Uyghur population. The Chinese sanctions imposed in March 2021 on several European entities and political representatives, including five members of the European Parliament and the Subcommittee on Human Rights, were a retaliatory act in response to the EU decision to enact restrictive measures against four Chinese officials over human rights abuses against the Muslim Uyghur minority in the Xinjiang region (European Council 2021).

The European Parliament's decision to freeze the CAI reflects growing disenchantment over the past years with China among European lawmakers who—following the sanctions—are determined to stand up more firmly to Beijing. Still, China remains Europe's second largest trading partner and a vital engine of world growth, and any moves against Beijing could open the door to escalating economic retaliation—a prospect that may limit how far European governments and the European Commission are willing to go to pressure China.

The European business community in China is largely supportive of the CAI. Joerg Wuttke, president of the European Union Chamber of Commerce in China, argued in a recent article that the CAI makes marginal, though measurable, improvements in market access, recognizing that the biggest gains are the meaningful expansions of provisions on ensuring a level playing field for the thousands of European companies already in China and the setting of a legal foundation at the EU-China level that is currently absent (Wuttke 2021). Representatives of various business associations across Europe see the CAI as an opportunity to outcompete US companies in the Chinese market. The deal may also allow the Chinese government to counter the shopping list contained in the US-China “phase one” deal negotiated under Trump and maintained by the Biden administration.

To be ratified, the CAI needs unanimous support from EU member states and a favourable vote by the European Parliament. In mid-July 2021, the European Parliament outlined the conditions to be met before the legislative gives its consent to the CAI. The conditions have been listed in a report prepared by the foreign affairs committee of the European Parliament which calls for using the CAI as a leverage instrument to improve the protection of human rights and support for civil society in China (European Parliament 2021c). The pre-ratification commitments listed in the report include a timetable for China's ratification and implementation of key labour laws and concrete measures towards putting an end to human rights violations against the Uyghur minority in the country. The report also demands a recommitment by China to uphold its international commitments to Hong Kong. Moreover, the report takes into consideration the new transatlantic climate on China made possible by the arrival of the Biden administration (European Parliament 2021d).

On 21 October 2021, the European Parliament adopted a recommendation to the vice-president of the European Commission and high representative of the Union for Foreign Affairs and Security Policy on EU-Taiwan political relations and cooperation. Adopted by a majority of 580 members of European Parliament (MEPs), with 26 against and 66 abstentions, the document underlines the urgent need to launch an “impact assessment, public consultation and scoping exercise” for an EU-Taiwan

Bilateral Investment Agreement (BIA). The report also expresses grave concern over China's continued military belligerence, pressure, assault exercises, airspace violations, and disinformation campaigns against Taiwan, urging the EU to do more to address these tensions and to protect Taiwan's democracy and the island's status as an important EU partner (European Parliament 2021a).

Recent initiatives by MEPs are in line with the long-standing tradition of the European Parliament to take positions more critical of China than other EU institutions—such as the European Commission and the European External Action Service (EEAS)—as well as EU member states, which tend to seek compromise with China for fear of retaliation.

Europe continues to be split on its China policy, both within—i.e., among EU member states and EU institutions—as well as on the outside, since Brussels continues to oscillate between closer cooperation with the US on Beijing-related challenges and the pull of the Chinese market.

7 Conclusion: towards a European strategic “third way?”

As the Biden administration reaches out to Europeans to create a common front to counter Beijing, building on a natural tendency for the transatlantic allies to align their China policy, differences emerge, adding to diverging EU-US interests and competition for China's market shares, as the case of the CAI demonstrates. For the EU—and despite the increasing number of areas and sectors in which China is an economic competitor—Beijing continues to be perceived as an opportunity, in part for EU aspirations to emerge as a global actor and promote its “strategic autonomy.” This dynamic is helped by Chinese leaders' traditional backing for key European integration initiatives—when these are in line with Beijing's national interest. Recent declarations by EU officials seem to confirm Europe's intention to chart a “third way” between Washington and Beijing. French President Emmanuel Macron clearly said in December 2021 that the Europe he wants is “free in its choices and in charge of its own destiny.”

The difference between the transatlantic allies vis-à-vis China reflects the different nature—and responsibilities—of the two actors in the contemporary global order. While the US sits on top of the international system and is the world's preeminent military power, the EU is mainly a trading and civilian power. Although it is endowed with a formidable set of soft power capabilities, the EU lacks the capacity to seriously deploy hard power, in particular in parts of the world as far away as the Indo-Pacific. The US remains the ultimate guarantor of the liberal international order created in the aftermath of World War II. For many in Washington, China is the most ominous strategic challenge to both America's global primacy and that particular international democratic order created—and maintained—by the US.

Europe fully supports the US-led democratic order and has time and again opposed a Chinese-led world order not supported by Western values. However, aspirations towards “strategic autonomy” and the pull of the Chinese market, coupled with a preference for a multipolar—and multilateral—world system, have

so far made the EU reluctant, if not opposed, to backing a US-led containment strategy vis-à-vis Beijing.

Ultimately, the EU does not want to have to choose between the US and China, preferring a situation in which Brussels cooperates with Washington on issues of common concern related to Beijing while, at the same time, promoting closer commercial ties with China so as to support Europe's export-driven economy— notwithstanding the uncertainty that this may cause to the US and transatlantic relations.

Declarations

Conflict of interest The author declares that there is no conflict of competing interest regarding the publication of this paper.

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