

**HEARING ON EUROPE, THE UNITED STATES, AND RELATIONS
WITH CHINA: CONVERGENCE OR DIVERGENCE?**

HEARING
BEFORE THE
U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

**ONE HUNDRED EIGHTEENTH CONGRESS
FIRST SESSION**

THURSDAY, JUNE 15, 2023

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U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

WASHINGTON: 2023

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HEARING ON EUROPE, THE UNITED STATES, AND RELATIONS WITH CHINA: CONVERGENCE OR DIVERGENCE?

THURSDAY, JUNE 15, 2023

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

Washington, DC

The Commission met in Room 215 of Dirksen Senate Office Building, Washington, DC and via videoconference at 9:30 a.m., Commissioner James Mann and Commissioner Aaron Friedberg (Hearing Co-Chairs) presiding.

OPENING STATEMENT OF COMMISSIONER JAMES MANN HEARING CO-CHAIR

COMMISSIONER MANN: Good morning, everyone, and welcome to the sixth hearing of the U.S.-China Economic and Security Review Commission's 2023 annual report cycle. Thank you all for joining us today.

Thank you to our witnesses for sharing your expertise and for the work you've put into your testimonies.

I would also like to thank the Senate Finance Committee for allowing the use of their hearing room and the Senate Recording Studio for their assistance live streaming this event.

Finally, I'd like to remind all attending in person and all joining virtually that the testimonies from our witnesses are accessible on the USCC website. A transcript of this hearing will also be posted to the website at a later date.

Europe is of surpassing importance for U.S. policy towards China. Europe is a key American trading partner and a source of global technological innovation. It is also a critical strategic ally with shared commitments to transparent governance, democracy, and the rules-based international order. Europe and the United States face many of the same challenges in their relationships with China: a rising trade deficit, a lack of market reciprocity, widespread theft of intellectual property, uncooperative diplomacy from Beijing, and the Chinese Communist Party leadership's frequent support for aggressive authoritarianism.

As the United States continues to formulate its approach to addressing these challenges we need to examine the approaches of our allies across the Atlantic and consider areas where we benefit from coordination. To put it bluntly, the idea that the United States can deal with China while meanwhile pursuing an isolationist foreign policy amounts to a new type of American-China fantasy.

The United States should strive to find common purpose with Europe in the defense of a rules-based international order. Europe today is strongly committed to a world in which international rules will prevail. The European Union of today grew out of a shared aspiration to bring an end to contests of power that claimed so many lives in the two World Wars.

China's view of the world in contrast remains overwhelmingly based on considerations of power, a world in which strong nations make decisions in their own interests while weak nations accept the roles handed down to them by their more powerful neighbors. As an example, as China's then-foreign minister Yang Jiechi told assembled countries at the ASEAN Regional Forum in 2010, China is a big country and you are small countries, and that is a fact.

The war in Ukraine in particular has brought Europe and the United States into a closer strategic alignment. As both sides work to counter the Russian invasion efforts to restore peace in Europe have helped crystallize lessons that can also inform a shared approach to China. Nevertheless, it remains an open question how long after the end of the war in Ukraine this close alignment will last. European economies remain heavily dependent on China for trade and economic growth and many leaders and businesses remain hesitant to antagonize Beijing.

Longstanding skepticism in Europe about the reliability of the United States' commitment to international cooperation has not disappeared. Recent comments from French President Macron and others have also highlighted continuing differences of opinion about China within Europe and between China and the United States. One can sometimes detect what might be called the European-China fantasy, the belief that Europe can simply pursue commerce with China and leave problems like Taiwan up to the Americans relying on the U.S. at the same time for such a large share of arms and money to support Ukraine and that that will have no major impact on Europe's own security.

For its own part China is working continually and intensely to create and accentuate divisions both within Europe and between Europe and the United States. Any estrangement between the United States and its European allies strengthens China and weakens U.S. policy towards it. The United States and Europe should deepen their common bonds based on the notion recently re-articulated by the European Union that China is a systemic rival.

We hope this hearing can contribute to that effort by increasing understand of where approaches align and where differences remain as well as by uncovering opportunities for deeper alignment.

I will now turn the floor over to my colleague and co-chair for this hearing, Commissioner Aaron Friedberg.

**PREPARED STATEMENT OF COMMISSIONER JAMES MANN
HEARING CO-CHAIR**



Hearing on “Europe, the United States, and Relations with China: Convergence or Divergence”

June 15, 2023

Opening Statement of Commissioner James Mann

Good morning, and welcome to the sixth hearing of the U.S.-China Economic and Security Review Commission’s 2023 Annual Report cycle. Thank you all for joining us today. Thank you to our witnesses for sharing your expertise and for the work you have put into your testimonies. I would also like to thank the Senate Finance Committee for allowing us the use of their hearing room and the Senate Recording Studio for their assistance livestreaming this event. Finally, I would like to remind all attending in person, and all joining virtually, that the testimonies from our witnesses are accessible on the USCC’s website. A transcript of this hearing will also be posted to the website at a later date.

Europe is of surpassing importance for U.S. policy toward China. Europe is a key American trading partner and a source of global technological innovation. It is also a critical strategic ally with shared commitments to transparent governance, democracy, and the rules-based international order. Europe and the United States face many of the same challenges in their relationships with China: a rising trade deficit, a lack of market reciprocity, widespread theft of intellectual property, uncooperative diplomacy from Beijing, and the CCP leadership’s frequent support for aggressive authoritarianism. As the United States continues to formulate its approach to addressing these challenges, we need to examine the approaches of our allies across the Atlantic and consider areas where we benefit from coordination. To put it bluntly, the idea that the United States can deal with China while meanwhile pursuing an isolationist foreign policy amounts to a new type of American “China fantasy.”

The United States should strive to find common purpose with Europe in the defense of a rules-based international order. Europe today is strongly committed to a world where international rules prevail. The European Union of today grew out of a shared aspiration to bring an end to the contests of power that claimed so many lives in the two World Wars. China’s view of the world, in contrast, remains overwhelmingly based on considerations of power: a world in which strong nations make decisions in their own interests while weak nations accept the roles handed down to them by their more powerful neighbors. As China’s then Foreign Minister Yang Jichi told assembled countries at the ASEAN Regional Forum in 2010, “China is a big country and you are small countries, and that is a fact.”

The war in Ukraine in particular has brought Europe and the United States into a closer strategic alignment. As both sides work to counter the Russian invasion, efforts to restore peace in Europe have helped crystallize lessons that can also inform a shared approach to China. Nevertheless, it remains an open question how long after the end of the war in Ukraine this close alignment will last. European economies remain heavily dependent on China for trade and economic growth, and many leaders and businesses remain hesitant to antagonize Beijing. Longstanding skepticism in Europe about the reliability of the United States’ commitment to international cooperation has not disappeared. Recent comments from French President Macron and others have also highlighted continuing differences in opinion about China within Europe and between China and the United States. One can sometimes detect what might be called a European “China

fantasy,” the belief that Europe can simply pursue commerce with China and leave problems like Taiwan up to the Americans, while relying on the United States for such a large share of arms and money to support Ukraine, will have no impact on Europe’s own security. For its own part, China is working continually and intensely to create and accentuate divisions, both within Europe and between Europe and the United States.

Any estrangement between the United States and its European allies strengthens China and weakens U.S. policy towards it. The United States and Europe should deepen their common bonds based on the notion, recently re-articulated by the European Union, that China is a “systemic rival.” We hope this Hearing can help contribute to that effort by increasing understanding of where approaches align and where differences remain as well as by uncovering opportunities for deeper alignment.

I will now turn the floor over to my colleague and co-chair for this hearing, Commissioner Aaron Friedberg.

OPENING STATEMENT OF COMMISSIONER AARON FRIEDBERG HEARING CO-CHAIR

COMMISSIONER FRIEDBERG: Thank you very much, Commissioner Mann.

Good morning, everyone. I'd like to also thank our witnesses for joining us today, for the effort that they have put into preparing their testimonies.

The purpose of today's hearing is to explore the prospects for convergence and divergence and U.S. in European policies aimed at meeting the growing economic, technological, and military challenges from China.

Since the COVID-19 pandemic, and especially since the start of Russia's unprovoked war in Ukraine, the United States and many of its European allies and partners have been moving closer in their assessments of the threat to their security, welfare, and shared democratic ideals posed by an increasingly powerful and aggressive China.

While the process of convergence has been uneven with progress in some areas more than in others, there is growing transatlantic agreement on the need to disentangle risky economic ties, to protect sensitive and emerging technologies, to defend democratic societies against political interference, and to bolster deterrence by reaffirming shared security commitments.

Despite this recent progress it remains to be seen whether the U.S. and European perceptions and policies will continue to align more closely. There are still significant differences of opinion regarding the extent and urgency of the challenge China presents, both across Europe and within several key European countries, as well as between Europe and the United States.

Countering China's mercantilist economic policies effectively will require the U.S. and its democratic allies in Europe and Asia to overcome longstanding disagreements regarding technology development, industrial subsidies, and data privacy, among other issues. Some in Europe continue to believe that their countries could somehow stand aloof and remain neutral in a future conflict over Taiwan. Differing expectations between the United States and its European partners on how to respond in the event of aggression by Beijing could create a serious crisis in the transatlantic relationship.

Some European governments may also be reluctant to align too closely with the U.S. because they have doubts about the future direction of our foreign policy. The Chinese Communist Party leadership is aware of these underlying tensions and potential fault lines and the party is working hard to prevent a unified response to its increasingly aggressive behavior by trying to drive wedges between the U.S. and its European allies and between the countries of Europe.

As the United States and its allies and partners seek jointly to navigate the intensifying rivalry with China it's essential to reach shared understanding of the nature and extent of the threats China poses to all parties and, to the degree possible, to craft mutually supportive coordinated policies for meeting them.

With these ends in view our witnesses today will examine China's strategy towards Europe, as well as Europe's evolving perceptions of China and illuminate the possible obstacles to and opportunities for further transatlantic cooperation on a broad range of economic, technological, and strategic issues.

So with that I'd like to welcome the witnesses for our first panel and turn the chair back to my friend and colleague, Commissioner Mann.

**PREPARED STATEMENT OF COMMISSIONER AARON FRIEDBERG
HEARING CO-CHAIR**



Hearing on “Europe, the United States, and Relations with China: Convergence or Divergence”

June 15, 2023

Opening Statement of Commissioner Aaron Friedberg

Thank you, Commissioner Mann, and good morning everyone. I would also like to thank all of our witnesses for joining us today and for the effort they have put into preparing their testimonies.

The purpose of today’s hearing is to explore the prospects for convergence and divergence in US and European policies aimed at meeting the growing economic, technological, and military challenges from China. Since the COVID-19 pandemic, and especially since the start of Russia’s unprovoked war in Ukraine, the United States and many of its European allies and partners have been moving closer in their assessments of the threat to their security, welfare, and shared democratic ideals posed by an increasingly powerful and aggressive China. While the process of convergence has been uneven, with more progress in some areas than others, there is growing Transatlantic agreement on the need to disentangle risky economic ties, to protect sensitive and emerging technologies, to defend democratic societies against political interference, and to bolster deterrence by reaffirming shared security commitments.

Despite this recent progress, it remains to be seen whether U.S. and European perceptions and policies will continue to align more closely. There are still significant differences of opinion regarding the extent and urgency of the challenge China presents, both across Europe and within several key European countries, as well as between Europe and the United States. Countering China’s mercantilist economic policies effectively will require the U.S. and its democratic allies in Europe and Asia to overcome long-standing disagreements regarding technology development, industrial subsidies, and data privacy, among other issues. Some in Europe also continue to believe that their countries could somehow stand aloof and remain neutral in a future conflict over Taiwan. Differing expectations between the United States and its European partners on how to respond in the event of aggression by Beijing could create a serious crisis in the Transatlantic relationship. Some European governments may also be reluctant to align too closely with the U.S. because they have doubts about the future direction of our foreign policy. The Chinese Communist Party leadership is aware of these underlying tensions and potential fault lines, and the Party is working hard to prevent a unified response to its increasingly aggressive behavior by trying to drive wedges between the U.S. and its European allies, and between the countries of Europe.

As the United States and its allies and partners seek jointly to navigate the intensifying rivalry with China, it is essential to reach a shared understanding of the nature and extent of the threats China poses to all parties and, to the degree possible, to craft mutually supportive, coordinated policies for meeting them. With these ends in view, our witnesses today will examine China’s strategy towards Europe as well as Europe’s evolving perceptions of China, and illuminate the possible obstacles to, and opportunities for, further Transatlantic cooperation on a broad range of economic, technological, and strategic issues.

With that, I would like to welcome the witnesses on our first panel.

PANEL I INTRODUCTION BY COMMISSIONER JAMES MANN

COMMISSIONER MANN: Our first panel will provide an overview of evolving European and Chinese perceptions and policies as well as highlight the perspectives of two European countries: Germany and the Czech Republic.

We'll start with Mr. Andrew Small, who is senior transatlantic fellow in the Indo-Pacific Program at the German Marshall Foundation in Berlin. His testimony will provide an overview of China's approach to Europe.

Next we'll hear from Mr. Noah Barkin, who is appearing virtually. Mr. Barkin is a senior advisor with the China Practice for Rhodium Group and he will provide an overview of European approaches to China.

Third, Dr. Volker Stanzel, who is also appearing virtually, will provide his testimony. Dr. Stanzel is a senior distinguished fellow at the German Institute for International and Security Affairs and he will address Germany's relations with China.

And finally, we'll hear from Dr. Ivana Karásková, a China research fellow and China projects lead for the Association of International Affairs and founder of MapInfluenCE, as well as China Observers in Central and Eastern Europe. That's CHOICE. Her testimony will address the Czech Republic's approach to China.

Thank you all very much for your testimony. The Commission is looking forward to your remarks. I ask all witnesses to please keep their remarks to seven minutes. Mr. Smart, we'll begin with you.

OPENING STATEMENT OF ANDREW SMALL, SENIOR FELLOW, INDO-PACIFIC PROGRAM, GERMAN MARSHALL FUND

MR. SMALL: Thank you very much, Chairman, Commissioner Mann, Commissioner Friedberg, other distinguished members of the Commission. I'm honored to have the opportunity to testify before you again today.

For my testimony I was encouraged primarily to focus on PRC objectives vis-a-vis Europe, which I will summarize in a moment. But I just wanted to make a general point regarding the overall picture when it comes to transatlantic cooperation vis-a-vis China.

I think we're now a world removed from where we were a few years earlier and substantially further on than we were only 18 months ago. I think it's now no longer a question as it once was of whether we can or should cooperate on China, whether we should do that openly, or what a transatlantic agenda might look like.

We now have a lengthy agenda. It is, as we see from the G7 statements to NATO's Strategic Concept, an increasingly open one. It runs from summit level to the operational to the working level. It spans the security, economic, and technological institutions of the transatlantic relationship. And it's translating practically now from export controls to sanctions to the warnings leaders send to China on Russia. And I think it's starting to recondition other areas of the transatlantic relationship, too, from how we approach our respective industrial policy efforts to our joint financing offices as we compete with China in the developing world.

None of this is to say that there aren't gaps and frustrations and differences. I think as Commissioner Friedberg mentioned, the biggest gap in my mind has still been the urgency gap between the two sides rather than any major underlying differences on how we view the problem, but I think we start in the wrong place if we don't acknowledge just how far the transatlantic China agenda has moved and how far some of those gaps have closed.

On the PRC side I think they see this perfectly clearly. I think there's no self-consoling fiction there about Europe being too divided to agree -- China policies or the belief if Beijing's tactics are sufficiently ingenious that it would be possible to bring about deep transatlantic rifts. I think they're realistic about the fact of U.S.-European convergence and relatively pessimistic about where it's heading.

This reflects a mix of old considerations and new ones. The PRC has long seen Europeans as part of an ideologically hostile continuum. Its western values, western hostile forces, western hegemony that China has railed against. It's seen the military alliance with the United States providing the overarching framework for European security choices and now Washington assuming even greater importance for European security in light of the Russian invasion of Ukraine.

It sees the balance of European industry tilting in more critical directions as the PRC has extended its long market practices all the way up the value chain as well as into third markets. And it sees this combination of Europe's transatlantically-conditioned security needs, greater anxiety about economic competition, and the western ideological affinity starting to converge in ways that are detrimental to Chinese interests.

I think there's good reason that Xi Jinping publicly stated that "it's not just the United States but western countries that have implemented all-round containment, encirclement, and suppression against us."

Beijing also sees many of the old tools and channels that it used to use to such great effect in Europe delivering weaker or even at some points counterproductive results: its use of

spoilers, its use of economic coercion, its ability to rely on free traders in Europe, its capacity to peel off states in Southern Europe, in Central Europe, in Eastern Europe, and even the special relationship with Germany.

In the written testimony I explain why this is the case, how a mix of political and economic changes in Europe since the days of the sovereign debt crisis and the shifting attitudes to risk resulting from the pandemic and the Russian invasion have coalesced with this bigger China rethink in Europe.

None of this is to say that the old PRC channels and tools don't work at all. As we're seeing now with European firms, Beijing is coming up with more concerted ways to squeeze them and it's finding new buttons to press such as, as was mentioned in the introduction, the harping on strategic autonomy, but Beijing is simply having to deploy these tools to achieve a more limited set of objectives in Europe than it once was.

And I characterize them as frustrating, complicating, and making more costly any U.S. coalition building efforts with Europe, maintaining a level of European openness on commercial and technology access that at least gives more room for maneuver than is possible with the U.S., and ensuring that European states don't cross any of China's red lines on Taiwan and other sensitive issues.

These are achievable and important, but very much non-maximalist aims on China's side. And I think the defining down of the goals that the PRC can expect to achieve is not just because China is realistic about some of the negative trends that it's seeing in relations with Europe, but because Beijing is also knowingly taking decisions that will make some of these trends in Sino-European relations worse.

Some of these decisions that the PRC is taking are often portrayed as making mistakes. Why run ideologically-aggressive campaigns out of your embassies in Europe during the pandemic? Why support Russian treaty proposals that would roll back alliance commitments in Central Europe? In practice however the calculation appears to be that in the struggling environment the PRC now faces the harm to relationships in Europe is a regrettable but necessary trade-off resulting from choices that are of simply of higher importance to the PRC's domestic and wider strategic interests. This is especially the case with the PRC's decision to openly deepen ties with Moscow at a time of war.

However frustrated he at times appears to be about this in meetings with European leaders, Xi Jinping evidently understands and accepts the consequences of this decision for the Sino-European relationship as long as the fallout with Europe can be contained. Beijing does take seriously the risk and warnings of a real rupture in relations with Europe if it swings in with systemic supplies of lethal aid to Russia and it's also tried to find ways to placate Europe on areas of concern while making sure it doesn't give away anything too substantial in the process.

Europeans are certainly among the intended audience for China's Special Envoy for Eurasian Affairs, for the belated phone call with Zelenskyy, and for Beijing's 12-point position paper. I think the PRC knows that it matters to be seen to be doing something to address the conflict even if there's very little pretense that it amounts to much.

But I think that in the end overestimating the potential scope of any charm offensive for Europe on the PRC side is a mistake. It should be understood as part of a damage limitation exercise and there should be no assumption a lot will be put in the table for the Europeans. Beijing will still manage its relationship extremely carefully. PRC has long understood the strategic salience of Europe in a context where economic, technological, and even discourse power is of critical importance.

And there will certainly be a push to ensure that the derisking and economic security agenda is contained, but there's an underlying assumption from the PRC that in a world of system competition and system rivalry Europe is on the opposite side and beyond hoping that some exogenous factors may change that Xi Jinping is steeling China for a confrontation not just with the United States and its Asian allies, but with the West as a whole.

**PREPARED STATEMENT OF ANDREW SMALL, SENIOR FELLOW, INDO-PACIFIC
PROGRAM, GERMAN MARSHALL FUND**

U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

Hearing on “Europe, the United States, and Relations with China: Convergence or Divergence?”

Thursday, June 15th

**Testimony by Andrew Small, Senior Transatlantic Fellow,
the German Marshall Fund of the United States**

The People’s Republic of China (PRC) once had a more ambitious set of objectives with Europe, seeing the prospect of an independent European pole emerging that could act as a soft-balancer to the United States. At the very least, Beijing had a toolkit and set of channels in place that could often undercut European efforts to mount a common front on issues of concern. Now its goals are more limited and its tools are no longer as effective, at times even counterproductive. The PRC wants to frustrate US coalition building efforts with Europe, maintain a level of European openness on commercial and technology access, and ensure that European states do not cross any of China’s red lines on Taiwan and other sensitive issues. But Beijing has also accepted that deepening its relationship with Russia amid war in Europe will come at a price, albeit one that it believes is worth paying in the context of its broader struggle with the United States. The PRC is also aware that it is dealing with an even closer transatlantic security partnership now than it was eighteen months ago, and that many of the measures pursued against Russia have clear read-across for China too. As a result, it is increasingly realistic about the fact that it is - as Xi Jinping noted - “Western countries”, not just the United States, that it sees “suppressing” China’s rise.¹

The Ukraine factor

The PRC’s relationship with Europe is now more heavily conditioned by dynamics with the United States and with Russia than at any time in the recent

¹ See reporting of Xi’s remarks by Xinhua, March 6, 2023, retrieved at: http://www.news.cn/politics/leaders/2023-03/06/c_1129417096.htm

past. The US factor has always weighed significantly in China's policy towards Europe, but now occupies a substantially more prominent role. The Russia factor, by contrast, has had a negligible influence on Sino-European ties in the last few decades but now looms over the entire relationship.

Russia's invasion of Ukraine has made it increasingly challenging for the PRC to reconcile its foreign policy objectives in Europe. On the one hand, ensuring that the transatlantic allies are unable to maintain an effective common front towards the PRC has become a central point of focus for Beijing, and the Chinese government has deployed a mix of pressure and inducements to try to complicate, slow down and raise the costs of US coalition-building efforts with Europe. On the other hand, in the wider struggle that Beijing sees itself engaged in with the United States - and with the West more broadly - there is no partner more important to the PRC than Russia.

Beijing has essentially decided to accept some level of collateral damage to its relationships in Europe as the price for deepening and elevating its ties with Moscow at a juncture when the continent is facing the largest scale conflict since World War II. The PRC is trying to limit the extent of that damage, and at times has even seen opportunities to parley its perceived leverage with Russia into concessions from European leaders who are desperate for any helpful influence that can be brought to bear on the war. But at each juncture when Xi Jinping has been faced with decisions on whether to position China in the carefully neutral way he did in 2014 after Russia's annexation of Crimea or to throw China's political weight behind Putin and bolster the Sino-Russian relationship, he has chosen the latter, in full knowledge of what the fallout will be.

This reflects a pessimism - or realism - about what kind of relationship Beijing can expect with Europe, given the political trajectory Xi has set for China, and the contours of the geo-strategic landscape it sees emerging. The PRC certainly sees Europe as the more benign and more tractable part of the West. Europe's limited security role in Asia inherently limits one element of the rivalry, in contrast to the United States, while the nature of Europe's political structures

affords opportunities for the PRC to undercut - or at least weaken - European efforts to adopt robust common positions on matters of concern.

Yet Xi Jinping's framing of the situation at the 2023 Two Sessions is indicative, with his statement that "Western countries – led by the US – have implemented all-round containment, encirclement and suppression against us"². The PRC still sees the Europeans as part of an ideologically-hostile western continuum, a category in which Beijing does not place most of its Asian neighbors. It sees the military alliance with the United States as providing the overarching framework for Europe's security choices, and Washington assuming even greater importance for European security in light of the Russian invasion. At the same time, for all the PRC's supposedly-ingenious divide-and-rule tactics and the supposedly-insurmountable European rifts, it sees the EU, NATO, and major European states continuing to agree on policies, language and positions that the PRC considers to be highly problematic.

In the PRC's broader struggle against western hegemony in the global order, and its concern that "western values" and "western hostile forces" will subvert CPC rule, Europe is an adversary³. This is often to the surprise of European leaders themselves, who have only recently and incompletely come to understand themselves as part of the "systemic rivalry" in which the PRC has long seen itself embroiled. Language that was once mostly restricted to internal CPC documents and private meetings with friendly leaders is now used more openly in Xi's speeches, PRC information activities, and joint statements. Elements of this represent tactical positioning - China sees advantage in mobilizing anti-western sentiment in the developing world as a means of reinforcing its own position, and still draws certain distinctions between Europe and the United States. But the decision to instrumentalize Europe for the sake of advantage in the PRC's wider ideological and geo-strategic struggle is evidently

² Ibid.

³ Chris Buckley, "China Takes Aim at Western Ideas," New York Times, 20 Aug. 2013, <https://www.nytimes.com/2013/08/20/world/asia/chinas-new-leadership-takes-hard-line-in-secret-memo.html>

still problematic for Europeans. And Xi's initiatives - the Global Security Initiative, the Global Development Initiative, and the Global Civilization - very clearly exclude or are counterposed to Europe, and are rather framed as a pitch to the non-western developing world. The more overtly politically-hostile stance taken by the PRC in recent years, from the major Sino-Russian joint statements to the propaganda activities during the COVID-19 pandemic against the failings of European democracies, have chipped away the once-prevalent notion in Europe that the PRC is simply a pragmatic actor that will act in the interests of stabilizing the international system at times of strain.

PRC articulations of ideological hostility are nonetheless tempered by the goal of limiting the extent of the rupture with Europe in critical areas, and China is still seeking to stabilize the relationship amid these tensions. In particular, since the tightening of US technology controls on the PRC - most notably the US export controls of October 2022 - Europe is seen as an even more important conduit for continued access to advanced technologies, in areas where China itself still lags behind. The European focus on "economic security" is a matter of significant concern - the securitization of Europe's commercial and technology interactions would shut down a vital channel. Beijing also wants to ensure that Europe continues to operate within the prior constraints of its One China policy, and has been increasingly troubled by the dynamics in Europe-Taiwan relations. One Chinese interlocutor described the issue to a European audience as "the reddest of red lines and the core of our core interests"⁴. Warnings from European political leaders about the consequences if the PRC provides lethal aid to Russia are therefore weighed seriously. Beijing is well aware that the relationship with Europe has the potential to deteriorate far further and faster. Hence, while bolstering the Russian position in many of the areas that Moscow has considered to be of greatest importance - the large-scale provision of dual-use goods, financial support, and political backing - Beijing has been careful not to take steps that would position itself as an outright co-belligerent.

⁴ Private meeting, 2022

However, insofar as the PRC does not expect to be able to achieve a maximalist set of objectives - such as a non-aligned Europe - it is not willing to put major inducements on the table either. While the PRC has extended targeted and specific benefits to certain European firms, and made market access offers during major visits, the current "charm offensive" with Europe is relatively limited in scope. Even mooted steps such as the removal of the suite of retaliatory sanctions imposed in 2021 on parliamentarians, officials, and think tanks after the deliberately modest European Xinjiang-related sanctions would only represent the undoing of an act of political damage. The sanctions themselves were indicative of the PRC's approach - offering Europe an investment agreement as a means of undergirding the relationship and undercutting the Biden administration's coalition-building efforts before it had even taken office seemed at least to be a successful tactical move. But it was considered less important to ensure that the agreement was ratified than to retaliate against EU sanctions, especially those pursued jointly with the United States.

The PRC has made it clear that it is unwilling to make compromises to its relationship with Russia - certainly not through exerting any meaningful form of bilateral pressure regarding the war or its conduct, but not even through the sort of careful political distancing that it has exhibited in the past. Neither is there any pretense that Beijing has any intention on the sorts of domestic reform moves that might rebalance the terms of the economic relationship with Europe, quite the opposite. As such, the deteriorating relationship with Europe is to some extent understood to be a regrettable but inevitable consequence of other decisions that Xi Jinping has taken, will continue to take, and that are simply of higher importance to PRC domestic and wider strategic interests.

"A certain country"

This does not stop Beijing from attributing virtually every adverse development in European policy to the malign influence of the United States. In diplomatic exchanges, Chinese officials complain lengthily about Washington's

behavior, and make it explicitly clear that joint actions pursued with the United States will be treated more harshly than measures taken by Europe alone. The stress that Chinese leaders, officials and experts now place on Europe's "strategic autonomy" is entirely focused on acts of differentiation from the United States - favorable European actions are "strategically autonomous" while critical positions represent the Europeans doing the US bidding. Since the Russian invasion of Ukraine is itself attributed by China to the United States "pushing a big country to the wall", PRC interlocutors suggest in their exchanges with European counterparts that the Europeans are unwitting fools being lured into vassalization by US strategic designs⁵. The United States is the "winner" of the war in Ukraine, they stress, while Europe - and European hopes of strategic autonomy - pays the price.

While there are pockets in Europe where this lands on fertile ground, it is generally received poorly, reflecting a tone-deafness to Europe's immediate security concerns, as Wang Yi's reception at the 2023 Munich Security Conference indicated⁶. The PRC's approach is designed, however, to help fulfill a narrower set of objectives, which focus less on wooing Europeans and more on deterring closer alignment. The collective effect of the anti-US barrage from China is indeed to induce caution among European actors about how collectively the transatlantic allies should operate on China-related matters. As one German official put it in an interview:

"We don't know what the tipping point is with Beijing— which provocation is it where they'll decide that they no longer see a difference between us and Washington? So even when we agree in substance, we are still hesitant ... We need to be able to present whatever we do as "European sovereignty" in order to deal with the costs that these actions have with the Chinese." ⁷

⁵ For "pushing a big country to the wall", see Foreign Ministry Spokesperson Hua Chunying's Regular Press Conference on February 23, 2022

⁶ See: "Wang Yi Attends the 59th Munich Security Conference and Delivers a Keynote Speech: Everything China has Done is for Peace" February 18, 2023

⁷ Quoted in "No Limits: the Inside Story of China's War with the West", Andrew Small,

Statements of this sort are precisely why Beijing sees its more limited set of objectives as potentially achievable: creating friction for US coalition-building efforts in Europe; maintaining a higher level of economic and technological openness and cooperation in Europe than will be the case for the United States; and preventing Europeans from crossing red lines on Taiwan and other sensitive issues. These are the goals against which we should judge the success of the PRC's approach rather than seeing actions that damage Sino-European ties as "mistakes" that rather reflect the fact that the PRC has more important first-order objectives, and is willing to live with the costs.

The European pole

Seen over a longer arc, this is certainly a defining down of what China had hoped to achieve with Europe. Twenty years earlier, China's ambitions were greater. The combination of transatlantic differences over the Iraq war, the new impetus behind the EU following the launch of the euro, and the momentum behind a European constitution, saw China investing additional energy in building the relationship, with heightened emphasis on the EU's emerging institutions. Influential Europeanists in Chinese foreign policy at the time made a case for upgrading the then-relatively-neglected European ties, and the apparent opportunity the shifting political context presented. The early years of the new millennium saw what both sides dubbed a "honeymoon period", with the Sino-European relationship even described by one of its leading experts as an "emerging axis".⁸ At the time, the PRC embarked on a push for two specific objectives - the lifting of the EU's arms embargo and the early award of "market economy status". While it failed to achieve them, it was a near-run thing in both cases. The loss of the EU constitutional referendums and the growing trend towards re-nationalization of power in the EU from Brussels, which was further accentuated during the eurozone crisis, saw Beijing rebalance its approach and

p197, Melville House, November 2022

⁸ David Shambaugh, "China and Europe: The Emerging Axis", 'China and Europe: the emerging axis', Current History, September: 243–8

place even greater premium on transacting through member-state capitals. But the PRC's aspirations during this early period encapsulated important elements of how Beijing looked at Europe.

Despite the close overlap of the EU's membership with that of NATO, the EU and its principal member states have been seen by China as an emerging pole distinct from the cluster of the very closest US allies, such as the "Five Eyes", or Asian allies whose power differential with the United States was wider. Europe's collective economic weight has given it greater scope than any actor other than the United States itself to chart its own path in trade and regulatory matters. In cases of political divergence from the United States, European states have also been willing openly to defend their positions under U.S. pressure, whether that be on the WTO, Iran, or climate change, and to rally others behind their approach. Moreover, although Europe is perceived as a source of ideological threat - being far more vocal on human rights issues than any U.S. partners in Asia - the relative importance of these factors in European policy had been seen by Beijing as diminishing since the 1990s as market opportunities grew and the relationship with China broadened. Moreover, China has seen Europe's law-bound, multilateral, and "open" approach as an area of potential convergence, given the virtually ideological attachment to these principles in Europe, particularly at junctures when the United States' commitment to multilateralism was in question.

If China's vision for Europe in its dealings with the United States was of an independent pole that would potentially help counterbalance the disquieting elements of US power, its vision for Europe in dealings with Beijing was of a continent whose aspirations to act collectively could readily be undermined. Ensuring successful dynamics with leading member states - Germany in particular - has always been decisive to the underpinnings of the relationship between China and Europe, most notably on long-term economic and technology matters. Beijing has only ever been able to achieve more limited outcomes at the European level, such as watering down joint statements, through its dealings with member states that are more peripheral to EU decision-making, such as

Greece or Hungary. With Berlin, it was able to address core concerns and unravel even cases where collective consensus had been built. To take one of the most prominent examples, when the EU moved to bring exemplary China-related trade cases, Beijing successfully unraveled majorities in favor of stronger European action on solar panels and on Huawei's subsidies (in 2013 and 2014 respectively), primarily through Berlin's intervention⁹. This was more consequential than the emphasis that has often been placed on Beijing's "dividing Europe" through peeling off one or two member states to prevent unanimity on foreign policy issues of Chinese concern.

Nonetheless, Beijing utilized every opportunity that presented itself to work with countries and actors that were disaffected with existing European power structures, particularly those emerging from the crises that roiled Europe from the late 2000s. Southern European governments unhappy with Berlin and Brussels' handling of the eurozone crisis; Central and Eastern European governments unhappy with Western European states' handling of the refugee crisis, as well as the dominance of China-policymaking by Berlin, Paris and London; and surging populist forces across Europe unhappy with some combination of migration and austerity; all were utilized as avenues of influence by China when its levers in the German chancellery did not yield the right results. For European business during this period, although complaints had already started accumulating in the years after WTO accession, China was, thanks to its domestic stimulus, the growth market where others were in the doldrums. It was during this period that China became or was on track to become the most important market for certain major European companies, becoming the world's largest car market in 2009, for instance.

Many of the tactics that China would later threaten to use more indiscriminately it then used in a targeted way, focused on Taiwan, Tibet and human rights - whether political freezes, boycotts of specific firms, or other

⁹ See e.g. Erik Kirschbaum, "Merkel, Li Call for End to EU-China Solar Trade Row," Reuters, 26 May 2013, <https://www.reuters.com/article/cbusiness-us-china-eu-trade-merkel-idCABRE94P0CD20130526>

technical obstacles to trade. In many cases, they worked. The Dalai Lama's meetings in Europe were pared down from an expected routine for major European heads of government to a diminishing group of bolder small states. European leaders who did conduct meetings would then go through the sheepish diplomatic choreography involved in emerging from Beijing's deep freeze. Unsurprisingly, the PRC's belief was that the same tactics could be deployed again to even greater effect once power had shifted further in its favor.

Firing blanks

The factors driving the dramatic shift in Europe's approach in the period from 2018 on are addressed in other testimony in this hearing. Most notable for the purposes of this analysis, however, is the fact that each of the constituencies that China has relied on no longer serves Chinese interests to the same extent as it did for the prior decade.

The European business community - and particularly the German business community - has become far more critical and concerned about China's trajectory, with the BDI indeed being the first to label the PRC a "systemic" competitor.¹⁰ The liberal free-traders in Europe no longer see the paradigm of European "openness" as the best way of sustaining a fair global trading order, and have grown concerned about both the security and economic risks of maintaining that openness to an actor of China's nature. The disaffected southern European states were granted far greater fiscal space during and beyond the COVID-19 pandemic, and northern European states understood far better the political costs of repeating the experience of the sovereign debt crisis, meaning that China would no longer the status of a lifeline. A combination of factors have seen the 17+1 fall apart, and Central and Eastern European states (with the exception of Hungary) have become China's biggest critics in the EU. Populists in the EU have seen less tactical advantage in playing the China card against Brussels, with the illustrative and stark contrast between Giorgia Meloni's China-

¹⁰ "China – a partner and systemic competitor", BDI, January 2019

critical government in Italy, and the Lega / Five Star government that saw Italy becoming the first and only G7 member to sign a Belt and Road Initiative MOU in 2019.

The departure from the scene of Angela Merkel not only cost China a "friend" who was still significantly wedded to the old framework of Europe-China relations, it left a successor who - even when minded to continue elements of her policies - cannot carry Europe in the same way . Power dynamics in Europe since the Russian invasion of Ukraine have also left France and Germany with less political space to drive the collective agenda. The elevation of discussion on China to the highest political levels in Europe - where it is now a matter regularly addressed together by heads of government - has also undercut the capacity of actors such as Hungary to run interference for China discreetly. Blocking a joint statement drafted by ambassadors is one thing; blocking a consensus among European leaders requires political capital to be spent, and is not something that the so-called spoilers - including Orban - have generally been willing to do on Beijing's behalf.

The PRC's heightened use of economic coercion has also started to elicit active resistance rather than compliance. Carefully-targeted measures directed at individual states over their meetings with, for instance, the Dalai Lama were in some sense treated as fair game in the past. But the expansion of these threats to include demands that European governments should accept Chinese companies in their telecoms infrastructure, or, in Lithuania's case, the PRC's decision to go after not only Lithuanian companies but Lithuania's role in European supply chains, is not seen in the same terms. Instead, Europe has moved ahead with plans to establish an "anti-coercion" instrument, as well as pushing back and refusing to change position in response to Beijing's threats. The 5G decisions have not, despite those threats, resulted in any punitive measures.

None of this is to argue that these channels no longer work at all. The PRC has, for instance, made an even-more-concerted effort to mobilize European corporate voices to act on their behalf - the publicly known case of the Ericsson

CEO petitioning the Swedish government to overturn the Huawei and ZTE exclusions, and the counter-revolution from German industry figures arguing against the political tide on China has in some ways rolled back BDI efforts to sharpen the industry association and German government's approach¹¹. There is anecdotal evidence of Chinese offers and pressures on European firms to play a heightened political role of this nature that is qualitatively different from past practices and bears close monitoring.

Moreover, the PRC has also sought to find ways to placate Europe on areas of concern, as long as it doesn't give anything substantial away in the process. Europeans are certainly among the intended target audience for China's special envoy for Eurasian affairs, for Xi Jinping's belated phone-call with Zelensky, and Beijing's 12-point position paper. China knows it matters to be seen to be doing something to address the conflict and it derives value from being treated as an interlocutor by all parties, which gives it both intelligence and a potential influence over the outcomes. Xi's visit to Moscow made clear though, despite the briefings by Chinese officials ahead of time, that he did not see the trip as a "peace mission", but rather another opportunity to deepen ties with Russia and engage in comprehensive exchanges with the Russian leadership, including on military cooperation.

But despite modest efforts to mitigate the slide in relations, and the refreshing of some prior techniques, the overall landscape for the PRC in Europe has become substantially more challenging, including for many reasons that this testimony did not touch on, such as the adverse shifts in the political and public opinion climate, the greater European focus on China's influence and information activities, and closer media scrutiny. This has not only complicated China's capacity to achieve its objectives, it has made some of the tools that Beijing had used in the past actively counterproductive.

¹¹ Ericsson CEO Lobbied to Overturn Sweden's Huawei Ban, Bloomberg, January 2, 2021

Conclusion

When European leaders meet Xi Jinping nowadays, it is clear that he is both concerned and in some instances frustrated by developments, particularly by the European insistence on linking China to Russia's invasion of Ukraine. Rather than a full-blown "charm offensive", there is a re-engagement with Europe, and a testing process underway to determine where the Europeans will land on several critical issues. There still appears to be a clear sense on the PRC side that it should be possible to maintain a Sino-European relationship that does not resemble the current dynamic with the United States. China would certainly like to prevent that. Beijing has long understood the strategic salience of Europe in a context where economic, technological, and even discourse power is of critical importance. It continues to see areas of potential traction with Europe, despite adverse developments in recent years. But it is clear that there are few consequential decisions that Beijing is willing to take in order to help salvage the relationship. And there are a number of consequential decisions that Beijing is taking that are having a detrimental impact on Sino-European ties, none of which it intends to resile from. The test for the PRC in the coming period is whether it can achieve its damage limitation goals, and see whether exogenous factors - the next US election, a major evolution in Ukraine, a yet-unforeseen global crisis - will present a different set of opportunities. But there is an incipient sense that Xi is already steeling China for a confrontation not just with the United States and its Asian allies, but the West as a whole.

OPENING STATEMENT OF NOAH BARKIN, SENIOR ADVISOR WITH CHINA PRACTICE, RHODIUM GROUP

COMMISSIONER MANN: Thank you very much, Mr. Small. Next we'll hear from Mr. Barkin.

MR. BARKIN: Commissioner Mann, Commissioner Friedberg, other distinguished members of the Commission, thank you for the opportunity to speak to you today about Europe-China relations and transatlantic cooperation on China.

Europe has been recalibrating its relationship with China for over half a decade, but the relationship entered a new phase following Russia's invasion of Ukraine in February 2022. Beijing's refusal to condemn the war and its deepening relationship with Moscow has cemented the view in many European capitals that China is turning into a geopolitical rival and competitor.

The war has also increased awareness in Europe of the risks of a conflict over Taiwan and it has triggered an intense debate in the big European capitals about reducing economic dependencies on China. The words that come up most frequently these days when discussing China with European officials are diversification, resilience, and derisking. That said, there are important differences between Europe and the U.S. when it comes to China policy, and I'd like to highlight a few of these.

First, the EU is a collection of 27 member states each with their own economic, political, and historical ties to China. On top of that we have EU institutions like the European Commission in Brussels. This means that Europe can be slower in responding to China. It also means that Europe sometimes speaks with multiple voices and sends conflicting policy signals.

We witnessed this in recent months when two of Europe's leading political figures: European Commission President Ursula von der Leyen and French President Emmanuel Macron, sent very different messages on China within the span of a week. Europe is not a monolith, but as we have seen in the case of Russia Europe is capable of moving quickly and decisively in times of crisis.

A second difference is that there is little appetite in Europe to contain, isolate, or disengage economically from China. Because of concerns about China's relationship with Russia, the risks of a Taiwan conflict, and rising tensions between the U.S. and China, there is a view that Europe needs to go out of its way to seek dialogue with the Chinese leadership. We've seen a flurry of visits by European leaders to Beijing in recent months. These visits were driven in part by a desire to try to head off worst case scenarios with Beijing.

Third, while there is a nascent push in Europe to reduce dependencies on China, the appetite for paying an economic price in the name of national security is not as developed as it is in the U.S., or for that matter in a country like Japan, and economic headwinds that Europe is experiencing from the war in Ukraine have reinforced the caution on this front.

The threat perception with regard to China is evolving in Europe, as Andrew Small just spelled out, but more gradually. Europe is not a major security player in the Indo-Pacific and it would not play a substantial military role in the event of a conflict in Taiwan. The internal discussion about how precisely Europe would respond to a Taiwan scenario is still in the early stages.

I'd like to offer a quick word on the economic relationship. China is the EU's top trading partner when it comes to goods trade, but the trading relationship is characterized by growing imbalances. The EU's trade deficit with China has doubled over the past two years reaching 366

billion euros in 2022. Germany recorded its largest trade deficit ever with China last year driven in part by shifting dynamics in the auto sector.

The emergence of Chinese car makers as formidable competitors in the electric vehicle space suggests that the mutually beneficial cooperation of past decades between Germany and China in autos may be running its course and this is likely to color the broader relationship going forward.

If we turn to European investment in China we can see resilience in the headline figures. Data from Rhodium Group shows that EU FDI in China has hovered between 8 and 9 billion euros each of the past four years, but beneath these headline figures there are important interesting trends.

First, EU investment is increasingly driven by greenfield projects rather than acquisitions. Companies that already have a large presence in China are investing in plants and equipment often as part of a push to localize their production.

Second, EU FDI in China is increasingly dominated by a handful of big companies. Above all German firms which made up a record 84 percent of total EU FDI in China last year according to Rhodium. At the same time we are seeing very few new European investors entering the Chinese market and many smaller firms are pausing or reducing investments in China. China's economic weakness coming out of the pandemic is one of the contributing factors here.

I'd like to conclude with a few recommendations for U.S. engagement with Europe on China. First, the U.S. should be looking to bed down the forums that have been created in recent years from the EU-U.S. dialogue on China to the Trade and Technology Council which plays an essential role in developing a transatlantic consensus on the big China-related issues, especially trade and technology. The TTC will require bipartisan support to survive under future administrations. Greater involvement from Congress can play a constructive role here.

Second, we have heard in recent months that the old Washington consensus on trade is dead. That may be true, but the administration and Congress should be thinking about how they can selectively reduce barriers to trade and investment with close allies in Europe as well as in Asia.

And finally, while the U.S. should not be shy about making its arguments on China policy to Europe behind closed doors, overt public pressure can backfire increasing resistance from certain member states undermining those in Europe who support more transatlantic cooperation on China and playing into Chinese narratives of Europe as a U.S. vassal. Congress has a role to play here, too. Building consensus steadily over time is likely to yield greater dividends than a confrontational public posture.

Thank you for your time. I look forward to your questions.

**PREPARED STATEMENT OF NOAH BARKIN, SENIOR ADVISOR WITH
CHINA PRACTICE, RHODIUM GROUP**

**Testimony before the US-China Economic and Security Review Commission Hearing on
"Europe, the United States, and Relations with China: Convergence or Divergence?"
15 June 2023**

**Noah Barkin
Senior Advisor, China Practice, Rhodium Group
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1. The Deterioration of EU-China Relations in Three Phases

Europe's relationship with China has been worsening for more than half a decade, mirroring the decline in relations between Washington and Beijing. This deterioration can be broken down into three phases.

In the first phase, from roughly 2015-2018, European concerns about China revolved primarily around issues of economic competitiveness and market access. European companies began complaining about rising state intervention in the Chinese economy under President Xi Jinping, including preferential treatment for state-owned enterprises (SOE) and an insistence that Communist Party cadres play a more important role in corporate affairs. The launch of the Made in China 2025 initiative, which identified a set of industries in which China sought to become a dominant global player, was seen as a threat to established European manufacturers. And acquisitions of European firms by Chinese competitors multiplied, stoking concerns about the transfer of key technologies and a loss of control over critical infrastructure. The 2016 acquisition of German robotics maker Kuka was an important inflection point in the European debate, triggering a push at the national and European level to put in place tighter investment screening rules.

In a second phase, between 2019 and 2021, European concerns about China began to extend beyond economic issues to encompass a broader set of worries tied to human rights, disinformation, strategic dependencies and coercion. In March 2019, the European Union published a strategy document that described China as a partner, economic competitor and systemic rival and set out a roadmap for developing a set of defensive EU instruments aimed primarily, if not explicitly, at China. This represented a significant shift in Europe's language and policy approach to Beijing.¹ China's crackdown in Hong Kong, its repression of Uyghurs in Xinjiang and its handling of the COVID-19 outbreak, including the spread of disinformation about the origins of the virus and the exploitation of mask supplies for political ends, all contributed to a sharp deterioration of China's image in Europe starting in 2020. By the end of that year, over 70 percent of surveyed respondents in Germany, France, the United Kingdom, Italy and the Netherlands had negative views of China.² This was exacerbated in 2021 by China's sanctioning of European lawmakers, academics and think tanks in response to targeted EU human rights sanctions tied to Xinjiang, and an economic

¹ EU-China: A Strategic Outlook, European Commission and HR/VP contribution to the European Council, 12 March 2019, <https://commission.europa.eu/system/files/2019-03/communication-eu-china-a-strategic-outlook.pdf>

² Laura Silver, Christine Huang and Laura Clancy, Pew Research Center, 29 June 2022 <https://www.pewresearch.org/global/2022/06/29/negative-views-of-china-tied-to-critical-views-of-its-policies-on-human-rights/>

coercion campaign against Lithuania following the Baltic country's embrace of closer ties with Taiwan. The sanctions stand-off has relegated the EU-China Comprehensive Agreement on Investment (CAI), a deal clinched at former German Chancellor Angela Merkel's urging in the weeks before the Biden administration took office, to the deep freeze.³

Europe entered a third phase following Russia's invasion of Ukraine in February 2022. The "no limits" partnership sealed between Xi Jinping and Vladimir Putin in the weeks before the war began and China's subsequent refusal to condemn Russia's aggression, has cemented the view of China in parts of Europe as a geopolitical threat. Importantly, it has also increased awareness, both in governments and corporate boardrooms, of the risks of a conflict over Taiwan. This has triggered an intense debate in major capitals about reducing economic dependencies on China. While a far-reaching economic decoupling is seen as both undesirable and unrealistic, diversification and resilience have become the new buzzwords in Europe.

In a reflection of the new mood, European Commission President Ursula von der Leyen gave the first major speech on China by a leading European political figure on March 30, 2023, arguing for a "de-risking" of the EU's relationship with China through a reduction of supply chain dependencies, protection of critical infrastructure and new measures to restrict transfers of sensitive technologies that could end up bolstering China's military.⁴ The "de-risking" concept has since been embraced by members of the Biden administration as well as the G7 at its recent summit in Hiroshima, Japan.⁵ But it remains to be seen how far big European countries like Germany and France are prepared to go in setting red lines on their economic and technological relationships with China.

2. Differences across the European Union

The hardening of the EU's line masks differences between the 27 EU member states, and in some cases, within individual governments. On the more hawkish end of the spectrum are a group of eastern European countries led by Lithuania who promote a values-driven foreign policy and whose views of China have been badly damaged by Beijing's refusal to condemn Russia's war of aggression in Ukraine. In 2021, Lithuania pulled out of what was then known as the "17+1" grouping, a decade-old forum designed to foster closer economic ties between eastern European countries (both within and outside the EU) and China. Its Baltic neighbors, Estonia and Latvia, left the grouping a year later, and it is now in tatters.

³ EU and China reach agreement in principle on investment, European Commission, 30 December 2020 https://ec.europa.eu/commission/presscorner/detail/en/ip_20_2541

⁴ Speech by European Commission President Ursula von der Leyen to the Mercator Institute for China Studies and the European Policy Centre, 30 March 2023 https://ec.europa.eu/commission/presscorner/detail/en/speech_23_2063

⁵ Remarks by National Security Advisor Jake Sullivan on Renewing American Economic Leadership at the Brookings Institution, 27 April 2023 <https://www.whitehouse.gov/briefing-room/speeches-remarks/2023/04/27/remarks-by-national-security-advisor-jake-sullivan-on-renewing-american-economic-leadership-at-the-brookings-institution/>

⁶ G7 Hiroshima Leaders Communique, 20 May 2023 <https://www.whitehouse.gov/briefing-room/statements-releases/2023/05/20/g7-hiroshima-leaders-communique/>

At the dovish extreme is Hungary, whose approach to China under long-serving Prime Minister Viktor Orbán has been driven by economic opportunism and a readiness to use the relationship with Beijing as leverage in its fraught ties with EU institutions in Brussels. Orbán has continued to welcome Chinese investments in Hungary, but crucially has not stood in the way of tougher measures against China at EU level, including the Xinjiang sanctions announced in 2021. This reflects a broader trend in Europe in which many member states are happy to support tougher policies at EU level but are reluctant to adopt forward-leaning policies at national level, partly due to fears of Chinese retaliation.

The largest EU states, from Germany and France, to the Netherlands and Italy, fall somewhere in between Lithuania and Hungary on the China policy spectrum. Still, there are important differences in how each of these states view the relationship with China. France, for example, stands out for its full-throated support of European strategic autonomy – code for an independent Europe that is not overly reliant on China or the United States. The messages sent by French President Emmanuel Macron during his trip to Beijing in April 2023 underscored a desire to put some distance between Paris and Washington at a time of escalating tensions between the US and China. In private, officials from other European capitals have been highly critical of Macron’s remarks – notably his implicit criticisms of the United States at a time when Washington is providing substantial support for the war effort in Ukraine and his suggestion that Taiwan is not a matter of core interest for Europe. But it would be wrong to assume that Macron’s messages did not reflect a broader anxiety that exists in many European countries about being forced into zero-sum choices by both the US and China. In contrast to France, the Netherlands has leaned more closely toward Washington, as its recent agreement with the United States and Japan to restrict exports of semiconductor manufacturing equipment to China demonstrated. Under its new Prime Minister Giorgia Meloni, Italy also appears to be adopting a tougher approach, signaling in recent months that it could withdraw from a Belt and Road memorandum signed in 2019 by a previous coalition government.

Under President Ursula von der Leyen, the European Commission in Brussels has also played an important role in driving European policy on China. Von der Leyen’s “de-risking” speech in March has helped frame the China debate in Europe for the coming year around economic security challenges – including export control policy and outbound investment screening. But in order to deliver on her vision, and to build a transatlantic consensus around how to define de-risking from China, she will need to convince influential capitals like Berlin and Paris to play ball.

3. The special role of Germany

Germany, as Europe’s largest economy and the country with by far the closest economic relationship with China, is the most important player in Europe on China policy. The domestic debate over relations with China has intensified in recent years and is now at the center of the German foreign policy discussion. The Angela Merkel era, characterized by a deepening of political engagement with Beijing and a sharp increase in trade and investment ties, ended with setbacks for the former chancellor on issues like 5G and the CAI. The new German government, led by Olaf Scholz, came into office in December 2021 promising a tougher approach to China. Foreign Minister Annalena Baerbock and Economy Minister Robert Habeck, both members of the Green party, junior coalition partners to Scholz’s Social Democrats, have pushed for a fundamental rethink of Merkel-era policies and pressed for a

reduction of German dependencies on China. Still, tougher rhetoric from some corners of the German government can obscure a reluctance to rock the boat in others.

In 2022, shortly before his first visit to Beijing, Scholz overruled half a dozen of his own ministers to approve a bid by Chinese shipping group COSCO for a stake in a terminal in Germany's largest port of Hamburg. His Chancellery has held up publication of a government China strategy, concerned that it could constrain its room for maneuver with Beijing. Germany's economic challenges – including an abrupt end to decades of cheap Russian energy and a risk that German companies could shift investments to the US to benefit from green technology subsidies under the US Inflation Reduction Act – have bred caution in Scholz's dealings with Beijing. An intense lobbying effort by large German companies that are heavily dependent on the Chinese market has also influenced Berlin's stance.

As we have seen on Ukraine, Germany is capable of major shifts in policy in times of acute crisis. Scholz broke three foreign policy taboos in the days after Russia's invasion, agreeing to send weapons to Ukraine, significantly increase defense spending, and wean Germany off Russian oil and gas. Barring a similarly acute crisis with China – a conflict in the Taiwan Strait or direct Chinese support for Russia's military campaign in Ukraine – Germany is unlikely to take steps in the near-term that would fundamentally call its relations with Beijing into question. Still, the economic narrative that has fueled close ties between Berlin and Beijing in the first decades of the 21st century is increasingly being eroded by conditions in China and competition from Chinese firms in core German industries.

This is especially true for the auto industry. Germany companies like Volkswagen, BMW and Mercedes-Benz have made between a third and half of their profits in the Chinese market. All three have long-running joint venture partners in China and a range of research and development partnerships in the country. Two Chinese companies—Geely and BAIC—have a combined stake in Mercedes-Benz of nearly 20 percent. And Chinese producers of electric-vehicle batteries are becoming deeply integrated into the supply chains of all three German carmakers. Support for the interests of the German carmakers is baked into Germany's political system. And yet, shifting dynamics in the industry—notably the emergence of Chinese carmakers as formidable competitors in the electric-vehicle space—suggest that the “win-win” cooperation of past decades between Germany and China in the automobile sector may have run its course. The well documented struggles of Volkswagen in China, for example, are a harbinger of more difficult times ahead for German carmakers in their favorite market. This, in turn, is likely to have a major impact on the broader German debate over China policy.

4. EU Trade and Investment with China

China is the EU's top trading partner in terms of goods trade, accounting for 9.0 percent of EU exports and 20.8 percent of imports in 2022. The relationship is characterized by growing imbalances and by significant variations among EU member states. The EU as a whole registered a trade deficit of 366 billion euros with China in 2022, up from 250 billion euros in 2021, and double the deficit of 182 billion registered in 2020. This increase is not out of line with growing trade deficits that other advanced economies have recorded with China in recent years. But it points to a rising asymmetry in trade relations, with Europe highly open to Chinese goods and China far more closed.

In 2022, Ireland was the only EU country to register a trade surplus with China, while the Netherlands had the biggest trade deficit. There are large variations among central and eastern European countries, with some trading very little with China (Croatia, Romania, Lithuania, Latvia) and others (Czech Republic, Poland) recording substantial trade flows as well as sharply rising deficits. Germany recorded its largest ever trade deficit with China in 2022, driven in part by shifting dynamics in the automobile sector, as imports of electric vehicles from China rose sharply and exports of traditional combustion engine cars from Germany stalled. The EU as a whole is highly dependent on China for a range of inputs, most notably in the green technology space, from rare earth metals, to lithium-ion batteries, photovoltaic panels and wind turbines. These dependencies have remained steady or increased in recent years. China, aware of the importance of the green transition within the European policy agenda, has warned in conversations with EU officials in recent months that it could limit exports of these critical inputs should Europe move in tandem with the US and other allies in placing additional controls on technology exports to China.

European Union foreign direct investment (FDI) in China has remained resilient in recent years, coming in at 8-9 billion euros each of the past four years, according to figures from Rhodium Group. EU investment in China is increasingly driven by greenfield projects (rather than acquisitions) and has come to be dominated by German firms, which according to Rhodium made up 84 percent of total EU FDI in China in 2022, and over 50 percent in four of the prior five years. Rhodium research shows that EU investments are increasingly concentrated in a small number of firms, with the top 10 European (EU+UK) investors in China accounting for an average of nearly 80 percent of European FDI in the 2018-2021 period, compared to 49 percent over the prior decade (2008-2017).⁷ European investments in China have also become more concentrated on sectoral basis, dominated by automotive, chemicals, food processing, pharma/biotech, and consumer products manufacturing. Among them, the auto sector stands out, representing about a third of all European direct investment in China in recent years, and an even higher proportion in 2022.

Another trend in European investment in China is a noticeable lack of new entrants into the market over the past years, a phenomenon which was likely exacerbated by the COVID-19 pandemic and strict lockdowns in China through the end of 2022. The absence of new players has contributed to the greater concentration of European FDI around a few established players. These big players have maintained a steady flow of investment into China despite growing challenges in the Chinese market and geopolitical headwinds. This has been driven by several considerations, based on our conversations with these firms. First, these companies continue to make good profits in China despite the more challenging environment. Second, many feel they must continue to invest and develop products in China in order to safeguard the value of past investments and remain competitive globally with increasingly innovative domestic rivals. Some are also trying to insulate their China operations from rising global risks through greater localization – an “in China for China” approach that is being actively encouraged by Chinese authorities. This localization drive is happening in tandem with a greater push for diversification, with firms looking to rebalance their global footprints with more investment in Southeast Asia, India, Eastern Europe and the United States, among other markets. This rebalancing process accelerated during the pandemic and has been given

⁷ Agatha Kratz, Noah Barkin and Lauren Dudley, “The Chosen Few: A Fresh Look at European FDI in China”, Rhodium Group, 14 September 2022 <https://rhg.com/research/the-chosen-few/>

further impetus by growing concerns over Taiwan. But barring an acute geopolitical crisis, it is likely to be a gradual process that unfolds over many years.

5. Transatlantic Cooperation on China

Nearly 2-1/2 years into the Biden administration, the language used in the United States and Europe to define the challenges posed by China is closer than it has been at any time in the past half-decade, with European capitals and Washington converging around a “de-risking” framing and rejecting the idea of full-blown decoupling. The US and EU have created a series of structured dialogues on China-related challenges, under the Trade and Technology Council (TTC) and US-EU Dialogue on China. And China features increasingly in discussions within NATO and the G7. The war in Ukraine has pushed the US and Europe closer together and focused minds on the risks of a conflict in the Taiwan Strait. There is a growing consensus on the need to reduce dependencies on China, diversify to other markets, and improve supply chain resilience.

At the same time, a persistent divide exists over how to define and address national security risks emanating from China, particularly in the economic and technological spheres. Europeans are concerned about what they see as growing US protectionism, and the risks of a race to the bottom on subsidies as governments on both sides of the Atlantic scramble to provide support to semiconductor and green technology industries. The endgame in Ukraine poses risks to transatlantic unity. And mixed signals from the EU on China – such as those sent by French President Emmanuel Macron on his recent trip to Beijing – risk deepening criticism of Europe in the US. At the same time, the politically charged nature of the US debate on China, is a concern for the Europeans. There is no appetite in European capitals for the isolation or economic containment of China. And there is growing anxiety about escalating tensions over Taiwan.

Looking further out, there is concern in Europe that future US administrations could de-prioritize the transatlantic relationship. At a time when Europe is grappling with Russia’s invasion of Ukraine and the economic fallout from the war, concerns about Washington’s long-term commitment to Europe have led to hedging in some European capitals on China policy amid concerns about opening too many geopolitical and economic fronts at once. Still, support for a close transatlantic relationship is robust across much of Europe. And in many capitals, there is a strong desire to reach a policy consensus with Washington on how to respond to China. By resolving irritants in the transatlantic trade relationship, engaging and consulting with key European capitals, and broadening the discussion with Europe to include other G7 countries like Canada, Japan and the UK, the risks of divergence can be minimized. Ultimately, convincing allies in Europe and elsewhere to fundamentally rethink their economic ties to China will depend, in part, on Washington’s willingness to offer them alternatives, including greater access to the US market.

6. Recommendations

Below are a number of guiding principles and recommendations for US engagement with Europe on China policy. They are based on the view that China represents a multi-faceted long-term challenge that the US cannot tackle alone. Washington’s competitive advantage in this strategic competition is its allies.

- **Engage, consult, listen.** The US should adopt a multi-faceted approach to engagement with Europe on China, focusing on the European Commission and the big member states, while supporting a common European line. This should include briefing and consulting with European allies ahead of key policy decisions, for example on measures related to export control policy or outbound investment screening. The EU and US have created a number of transatlantic coordination mechanisms in recent years, including the Trade and Technology Council. These forums can be slow moving and require a large commitment of diplomatic resources. But it is vital to keep them on track, even if they will need to evolve over time to tackle new challenges. The TTC, for example, will require bipartisan support to survive in future US administrations, and greater involvement from Congress can help make this happen.
- **Creating a transatlantic market.** The wheels of European de-risking from China can be greased by offering European firms an alternative in the form of greater access to the US market. Although there is little support in Washington for traditional free trade deals these days, the administration and Congress should be thinking actively about how they can selectively reduce barriers to trade and investment with close allies, particularly in Europe and Asia. The green technology sector is an obvious place to start, although protectionist elements of the Inflation Reduction Act will make this challenging.
- **Reshape the strategic autonomy narrative.** China and Russia’s deepening partnership presents a formidable challenge for the United States and Europe, creating what increasingly looks like a joined-up Eurasian theater. Against this backdrop, it is in the interests of the US that Europe takes on a bigger security role, in its neighborhood and beyond. Encouraging this should be a top priority for the US administration and Congress. But it should not be framed as a zero-sum endeavor. The US should remain committed to the European theater, while encouraging more European engagement in the Indo-Pacific.
- **Curb your enthusiasm.** Overt public pressure on Europe to move on China-related policy issues can backfire, increasing resistance from certain member states, undermining those in Europe who are sympathetic to the US policy approach, and playing into Chinese narratives of Europe as a US vassal. The US should be active, persistent, and assertive in making its policy arguments behind the scenes, relying on fact-based diplomacy rather than ideology. Building consensus steadily over time is likely to yield greater dividends than a confrontational public posture.
- **Look beyond the daily noise.** The European Union can be a confusing cacophony on China policy, with officials from all 27 member states and EU institutions sending conflicting signals. Remember that Europe is not a monolith. Intense debates on China policy are taking place within and between European governments and EU institutions, just as they are in Washington. The US government and Congress should take a long-term view and avoid over-reacting to individual European politicians or daily news developments. Don’t assume, because of stray remarks, that European capitals have made up their minds on critical issues related to China.

OPENING STATEMENT OF VOLKER STANZEL, SENIOR DISTINGUISHED FELLOW, GERMAN INSTITUTE FOR INTERNATIONAL AND SECURITY AFFAIRS

COMMISSIONER MANN: Thank you, Mr. Barkin.

Third, Dr. Stanzel. Nice to see you again.

DR. STANZEL: Chairman Mann, Commissioner Friedberg, members of the Commission, I'm happy to share with you some observations on Germany's relations with China. I'll begin with a look at the backdrop.

In the 1980s German industry, that of one of the strongest economies in the world was quick to test the opportunities that China's new reform and opening policy offered, and that was politically sound. After all, the West was just weaning China away from the Soviet Union. It also fit the strategy of change through Rapprochement that was being used against the Soviet Bloc, successfully in the end.

There came a hiatus after the Tiananmen Square massacre in 1989, but after the new leaders of China embarked on a more dynamic course in 2001 joining the WTO and promising that China would be a market economy by -- within 15 years, what's today called Change Through Trade, looked like a sensible China strategy. China seemed to become more of a genuine partner and the hope was there would be future reformers.

Xi Jinping had a reputation of being just that. Thus, Chancellor Angela Merkel invested in establishing a political conversation that would allow to push market-based reforms and eventually political changes as well. One of her successes was the establishment of annual government consultations where a wide range of issues could be discussed including controversial ones such as human rights or Taiwan. This kind of relationship gave the German government the confidence that China's modernization was still the goal, the disillusionment began a few years into Xi Jinping's rule.

One might call it a China compact. Modernization making China stronger, but also turning it into a market economy embedded in the global rules-based order. That compact was turned on its head when Xi Jinping terminated reform and opening, returned to the ruthless dictatorship of Mao Zedong's days, assertively aggressive toward the outside world.

That came as a surprise everywhere in the world, but for Germany it meant the very foundation of its relationship with China was shaken, but this was lost on German industry. Became clear when the German Federation of Industry in 2019 for the first time brought this triple term of China as partner, competitor, systemic rival into the public discussion. So have we been self-delusional all along and naive to be surprised now that the chicken's come home to roost?

Overall the German-Chinese economic relationship still is very much like that between two functioning economies, and figures of investment aren't so different from those and U.S. or Japan. But now Germany for the first time comes to feel the pain that the others have known since a long time as China subtracts growth from its partners through its balance of trade surplus. And that happens now when the Chinese economy has steered into a downturn of its own making.

Plus there's the dependency on China that today after the Ukraine shock seems excessive and dangerous. So how to minimize dependence?

Japan with rare earths has experienced how long that can take, and we're facing similar problems with solar panels, semiconductors, where Germany like other countries is trying to build its own production capacities with TSMC, who else?

De-risking is now a firmly accepted term replacing the previous de-coupling. And thanks to the G7 we now have concrete specifications of what it means, mainly diversification, adjusting global supply chains, outbound investment screening, but decreasing dependencies is going to be a long process. Mind you, Xi Jinping has expressly stated he wants to use dependence on China as a political tool.

But as the way Germany dealt with Russia's gas and oil embargo shows, market economies can adapt quite flexibly. Global supply chains wholly without China will not be possible, but the role of China must be adjusted in order to avoid the wholesale transfer of German firms to China as happened in the past. We want production to take place in Germany and for that we need to know who the investors are.

An open data bank for example would show who's able to act in Europe according to our rules. We don't want a systemic rival acting according to Communist Party directives inside our borders. Such a kind of de-risking would presumably also go a long way in addressing the German public's general negative attitude toward China.

Politically China is no longer trying to divide and rule only the European Union, but much more. Communist Party's attempt to unite the world against the U.S., the West may well lead to a global divide. The Ukrainian war is a heaven-sent opportunity for Beijing to impress again and again on the Europeans the need to break away from the hegemony of the Americans and to ensure peace with Russia by exerting pressure on Kyiv. Beijing doesn't even pretend to be a peace broker. In its collusion with Russia it acts more like a blackmailing thug. To get out of your U.S.-imposed mess you need us, you need China.

In this situation the relationship with the United States is the mainstay of Europe's China policy, not the least because it so far keeps the West united. That's a success that goes so far that even in industrial circles in Germany it is now accepted that in the event of a conflict over Taiwan Germany would stand at the side of Taiwan and the United States. That this would mean a global economic crisis is understood quite well, though grudgingly, with the result that Europeans as a whole vacillate between the hope that neutrality between the U.S. and China somehow might still be an option. And the acceptance, the need to get more engaged in security matters in the Indo-Pacific right now as was shown and demonstrated during the Shangri-La Conference with the European participants, and as was shown yesterday when Chancellor Scholz presented the new national security strategy of Germany.

I thank you for your attention.

**PREPARED STATEMENT OF VOLKER STANZEL, SENIOR DISTINGUISHED
FELLOW, GERMAN INSTITUTE FOR INTERNATIONAL AND SECURITY AFFAIRS**

June 15, 2023

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International and Security Affairs, Berlin

Testimony before the U.S.-China Economic and Security Review Commission
Germany's View of China

1.

The driver of Germany's „extensive trade and investment into China“ does not, in principle, differ from Germany's trade and investment elsewhere around the globe. In the 1980s, as the third-largest economic power in the world, Germany's industry pursued expansionist strategies wherever possible and profitable. China was a primary and convenient target, inviting to (1) bet on Deng Xiaoping's policy of „Reform and Opening“, (2) revive China's traditional pre-World War II links to German industry, and (3) use the political opportunities of a potential partner that was a rival to the West's Cold War adversary, the Soviet Union. In that, Germany acted similar to other European liberal market economies such as Great Britain or the Netherlands, but different from France with its more state-directed industrial policy. The situation changed somewhat after the massacre on Tiananmen Square in 1989, when business with China became tainted by the suspicion of supporting a brutal dictatorial regime. However, soon the stratagem of „Change through Rapprochement“ offered itself as a convincing rationale, because it had worked well enough with the Soviet Union, leading to its demise at the end of the Cold War. When president Jiang Zemin and prime minister Zhu Rongji in the 1990s revived the dynamic reformist course of before Tiananmen, and strove for membership in WTO, that seemed to justify Germany's policy of supporting trade and investment in China. It benefited German industry and at the same time gave credibility to what was now called more and more often „Change through Trade“. After chancellor Merkel came into office, her inside-knowledge of how Communist dictatorships function, and her anti-Communist credentials seemed to allow a strategy of cooperating where possible but disagreeing where necessary: a watchful political exchange with PRC leaders, while at the same time pushing for market economy reforms and supporting human rights. As a result, since 2011 annual government consultations between Germany and China have become a forum of searching for common ground both politically and on trade and investment. Only a few years after Xi Jinping took over in 2012, this complicated multifaceted policy became discredited by both Xi's economic policies - more than ever after the so-called „dual circulation“ strategy was promulgated in 2020 -, and his aggressive foreign policy, culminating in his partnership with Putin. The agreement between the three parties forming the German government since 2021 bears witness to this change in perception.

2.

The coalition agreement with the central objectives of „shaping our relations with China in the dimensions of partnership, competition and system rivalry“ and of striving „for close

transatlantic coordination“ represents (1) a change in the public view of China (with regularly between 70 and 80 per cent of those polled holding negative views of the PRC), (2) the increasing uncertainty in German industry about their future opportunities in China, and (3) the political search for a new China strategy, as planned by the coalition agreement. That search in itself reflects (a) differing attitudes of German parties, (b) changing facts on the ground in China, and (4) the recognition that the PRC itself is changing its own Europe strategy. The largest coalition party, the Social Democratic Party (SPD), has a solid tradition of pursuing traditional „Ostpolitik“ combined with business-friendliness in its economic policy (fed by trade union influence). Since the 1980s, it has a regular annual political exchange with the Central Committee of the CCP. The SPD thus finds it difficult to change its political views by 180° but recognises the need to redefine Germany's and Europe's China policy. The Green party has a decades-old tradition of human rights engagement and activities on Tibet issues. It is presently pushing hardest for a new approach to China (Foreign Minister Annalena Baerbock on April 14 at her joint press conference with PRC foreign minister Qin Gang warned that a violent change in the status of Taiwan would be “unacceptable”, insisted on respect for the rights of the Uyghurs, and called on the PRC to use its influence on Russia to end the war in Ukraine). The liberal Free Democratic Party (FDP), despite in principle the most business-friendly one of German parties, guided by some of its leading politicians over the years has become engaged in pro-Taiwan and Tibet human rights policies. Today it is the only party whose political foundation has been moved from the PRC to Taiwan (In May, Germany’s minister of finance and head of the FDP was asked by the PRC government on short notice to „postpone“ his visit to Beijing, presumably because the FDP is considered the least „friendly“ party by the CCP). The largest opposition party, the Christian Democratic Union (CDU), the party of Angela Merkel, never developed a clear profile on China, content with the industry-friendly policies of Chancellors Kohl (CDU), Schroeder (SPD) and Merkel. Only in recent years, some of its politicians developed a clearer profile on China. The CDU’s proposal for a China strategy basically is not very far from the government’s drafts („China’s rise is the 21st century’s epochal challenge for all nations; as China’s policy has changed, so our policy has to change“). Once the government will have published its China strategy, no deeper rifts between the government and the CDU are to be expected. Of the smaller opposition parties, the leftist „Linke“ has a distinct pro-China position, as has the rightist AfD. The China strategy drafts presently worked on by two „Green“ ministries (Federal Foreign Office and Federal Ministry for Economic Affairs and Climate Action) are strong on both political statements (one of the drafts emphasizes that China’s challenge is political, economic, technological, ecological, systemic, military, and global), and on detailed technical proposals (one of the drafts demands that regular self-imposed or mandatory industrial stress tests be introduced). Both drafts are presently discussed within the government and the strategy is to be promulgated sometime in Summer. It will represent a compromise between political positions that are not completely compatible with industry interests, and an adjustment to the negative public image of China in Germany.

3.

NATO is a transatlantic security alliance. Despite some engagement in Afghanistan, and despite exploring a possible „global NATO“ about 15 years ago, it has refrained from discussing China in depth. It was only due to intensive lobbying and pressured by the Biden administration that NATO on June 14, 2021 at the NATO summit declared that China presents a security risk to which the alliance needs to respond to. That declaration represents a circumspectiously calibrated adjustment of the China positions of various alliance members (think of Hungary!). As for the European Union, it certainly is not an autonomous actor. While it devises political (the EEAS) and economic (the European Commission) strategies on its own, member states not only try to influence the conception of strategies in Brussels, but in turn are also requested by Brussels institutions to assist them. The reason is obvious. In an integrated market such as the EU's and with policies of member states directly impacting EU policies, positively or negatively, early coordination is imperative for a successful common EU policy. Interests of member states in participating in these efforts, however, differ greatly, as do political and economic interests and the general orientation of member states: Hungary, for example, hoping for a particular Chinese investment, might try to stall EU policy that is critical of the PRC; at the same time the Czech Republic, with its human rights policy tradition, may be prone to risk Beijing's wrath more easily than other member states. Given the level of integration of the EU's economic and political views, larger member states tend to represent more of their interests in Brussels directly, including those of smaller member states with whom they cooperate on particular projects (Here the departure of the United Kingdom from the Union has a tangible impact on this kind of opinion-building).

4.

Even with market-economy principles in China regularly perverted, with intellectual property theft, with the environment for foreign-invested companies in the PRC manipulated to their disadvantage, with CCP political influence on economic decision-making, and with flagrant corruption, even with all that, throughout the two decades of vigorous Reform and Opening policies the Chinese market still offered profitable opportunities to larger German firms and to SMCs (the famous „backbone of German industry“) as well as to firms from other EU countries or non-EU European countries venturing to do business in China, alone or, often, together with German partners. With Xi Jinping's policies of strengthened political control of foreign firms, with the exclusion of foreign firms from market segments where they are no longer deemed needed due to the new „dual circulation“ strategy, mainly SMCs have come to feel pressure of a kind that dims their view of future opportunities in China. This is what led the German Federation of Industry (BDI) in 2019 to state, even before the government adopted the expression, that China is a „cooperation partner, an economic competitor and a systemic rival“. Today, larger firms still see profits outweighing risks and caution against alienating the CCP. They, however, have come to realize lately, that many of their Chinese suppliers have begun to pursue their own version of „de-risking“ (or „relocating“), that is to say, to move factories abroad so that they can still supply their present customers should these suddenly off-shore to somewhere outside of China (Southeast Asia most of the time is considered an attractive

destination). De-risking in the sense of evaluating risks and arriving at appropriate conclusions is a policy that business insists is an intelligent corporate strategy they are traditionally used to pursuing everywhere in the world. German business traditionally is in continuous exchange with administrative institutions and politicians and strives to impact policies in the making, be they domestic or foreign policy, and thus, the repositioning of Germany's China business is already underway.

5.

Evidently, German companies are in China for the profit. With a dynamic economy such as the PRC's, since the 1990s growing fast and then truly booming, that profit used to be considerable for larger firms as much as for SMCs. Primarily, customers first used to be in China but soon German investors helped turn China into that much-quoted low-wage „workshop of the world“, and sold from China too. With the increasing complexity of global supply chains, more firms sold out of, and again into China. Especially machinery, one of the mainstays of German industry, is imported from Germany to be sold in China, or (partly) produced in China for the Chinese or other markets. Often this involves other business partners, such as from Japan or Korea. In turn, Chinese firms have invested comparatively little in Germany, at least until the infamous „investment blitz“ of 2016 which mainly concerned high-tech firms, of interest in the framework of the official Chinese program of „Made in China 2025“. Some facts on Germany's involvement in China: China is Germany's biggest trading partner, importing goods valued at about \$202 bn in 2022, exporting for about 107 bn to China. German products sold in China (often produced in China too) are mainly cars and car parts, electric equipment, mechanical engineering, chemicals and pharmaceuticals. Especially the large firms want to continue to invest in China, insisting that with only about 7 per cent of German foreign-direct investment going to China, and China contributing about 12-16 per cent of corporate profits (about the same as in the case of the United States), only about 3 per cent of German jobs depend on China thus not constituting overexposure to the Chinese market. The counter-argument is that e.g. with 95 per cent of solar panels or 80 per cent of laptops in Germany coming from China, this means that Germany at least in some industrial segments already does depend too much on China (see also below #6).

Throughout the decades, in times of disputes, China used to threaten it would leverage its ties with the German firms in question, if things were not resolved the way Chinese partners would have it. As such, the strategy has never been successful, mainly because Chinese business partners felt the pain as much as German ones. But as there is the possibility of the tool being employed eventually, it always looms in the air and firms tend to avoid controversies. If such leveraging efforts enter the political sphere, they may turn into vicious controversies (though not in the case of Germany so far). In the case of the Nobel Peace Prize awarded to Chinese dissident Liu Xiaobo in 2011, Norway was held accountable, absurd as it was, for the Committee's decision, and suffered an economic boycott (of Norwegian salmon, and the cancellation of FTA negotiations) until it made conciliatory gestures such as admitting China to the Arctic Council in 2013, or refusing to meet with the Dalai Lama. When the European

Union in 2021 imposed sanctions on Chinese entities and persons responsible for human rights violations in Xinjiang, China countered by imposing its own boycott on members of the European Parliament (which in Europe is the most hawkish yet least influential actor on China) and various institutions such as think tanks, and terminating negotiations of a „Comprehensive Agreement on Investment“ with the EU.

6.

The first spontaneous reaction of the general public was the assumption that what Russia was doing in Ukraine, China might soon be doing in Taiwan (headline of the largest German tabloid: „What do we do if China attacks?“). Next, the question arose if Germany had not become dependent on business with China in a way similar to its dependence on energy imports from Russia, and therefore in the case of a major conflict with China might be extremely vulnerable. The present far-reaching societal consensus on „de-risking“ is a result of a rapidly growing awareness of the dependence risks involved in a close business relationship with China. Thus, the negative image of China continues to worsen. The possibility of a closer Russia-China partnership is seen as a direct threat to Europe and Germany. Continuous and insistent Chinese efforts to convince Germany and Europe that they would be better off securing „peace“ in Ukraine rather than supporting the country by „following the U.S.“, alienate the German public, and find no echo with the exception of the extremist Right and extremist Left.

7.

In Europe, the notion of „de-risking“ was introduced by European Commission president von der Leyen on March 30, 2023. It is a more sophisticated way of dealing with aspects of the China challenge than the almost undefinable „decoupling“, and thus seems convincing enough. Its precise definition, though, is still in the making. It is understood as meaning to reduce excessive dependencies on China in critical supply chains and to pursue economic diversification. The G7 summit on May 20 has gone farther by adding „economic resilience and economic security by reducing vulnerabilities and countering malign practices that exploit and reinforce them“. Politically, it is to be understood as a comprehensive approach to deal with a challenge that von der Leyen explained with the words „The CCP wishes for a systemic change of the international order with China at the centre which demands watchfulness and readiness to stand up to challenges.“ As the EU sits at the G7 table, it will most certainly work to convince EU Europeans and to minimise differences among EU governments over the meaning and implication of de-risking. That does not mean that Europe (as a whole, including important non-EU member states such as the UK, Norway, or Switzerland) pursues, or even possesses, a common China strategy.

8.

This is the view not of an expert on economic matters, but only of an observer: We do not want to become like China. It is to our advantage to maintain a free market system, and to strive for it globally. Certainly, coordinating efforts across the Atlantic to foster resilience of our firms, and to protect them from PRC foul play makes much sense. Such efforts might have three components: (1) As the G7 Summit said, (We) „recognise the necessity of protecting certain advanced technologies that could be used to threaten our national security without unduly limiting trade and investment“. (2) Defining a threshold from where extensive scrutiny of foreign investments must begin - with the understanding to interdict as little as possible, but not to accept the CCP in China toying with the existence of our firms who for so long not only benefited from being in the Chinese market, but also contributed to China's present prosperity. And (3) bringing firms across the Atlantic together in joint projects of cooperating and maintaining supply chains and institutions concerned with upholding free trade internationally; the EUCCC and its American counterpart in Beijing could play a useful active role here.

9.

A non-American cannot recommend anything to the American Legislative Branch; but maybe I am permitted a simple general observation. From 1945 on, the United States constructed a new international order out of post-war chaos. Despite major flaws, this order maintained peace between the superpowers, and laid the foundation for a decades-long period of global growth that lifted billions out of poverty, and in Western Europe laid the foundation for its present prosperity; after 45 years it led to the end of the Cold War. That international order is based on global rules, free market economy principles, and an understanding by America that it will contribute to uphold it. Today that order is fraying. Waning confidence in America's leadership corrodes the functioning of global governance. A majority of countries do not support sanctions against Russia which under Putin tries to bring together what it calls a „world majority“ against the U.S. and the West. China's successful rise is a temptation for leaders across the globe to replace rules by transactional pursuance of self-interest. The threat of war is there. It can be contained by a number of measures, and we Europeans must be one of the first addresses for America to talk to about how to deal with the new challenges. At the same time, the leaders of America, when they go about legislating to adjust the US economy to new challenges, need to remember that such legislation may have indirect consequences. Some of these consequences in the end may prove detrimental to the unity of the West, and therefore to America's interests as much as many of the dangers we were confronted with during the Cold War.

OPENING STATEMENT OF IVANA KARÁSKOVÁ, CHINA RESEARCH FELLOW AND CHINA PROJECTS LEAD, ASSOCIATION FOR INTERNATIONAL AFFAIRS

COMMISSIONER MANN: Thank you, Dr. Stanzel.

Dr. Karásková, please?

DR. KARÁSKOVÁ: Chair, Vice Chairman, Commissioners, ladies and gentlemen, thank you for offering me the opportunity to present to the committee my views on the Czech Republic's foreign policy towards China. The insights I present in both written and oral testimony are derived from extensive research conducted through two international projects that I lead: MapInfluenCE and CHOICE.

In my written testimony I discuss the broader framework of Czech-China relations. In my oral testimony I intend to highlight the factors that led to the Czech Republic's skeptical position on China while offering suggestions to enhance transatlantic collaboration regarding China-related matters.

The incumbent Czech government assuming power in December 2021 has exhibited a discernible level of doubt concerning China. This skepticism is apparent in the government's declaration to revise the nation's China strategy indicating a departure from the previous administration's emphasis on economic diplomacy with China.

In a parallel process the Czech Republic undertakes the revision of its security strategy. The drafted document explicitly recognizes China as a security threat alongside Russia. Please note the language. It's not labeled as challenge as NATO concept or it's not labeled in the trifecta of competitive partner arrival. It's labeled security threat.

By openly designating China as a security threat the Czech Republic signals its concerns regarding a range of issues including China's interference in democratic processes in the Czech Republic and China's pro-Russian neutrality in the war in Ukraine.

The recent election of President Petr Pavel, a former chair of the NATO Military Committee, has further bolstered the government's position. President Pavel has been supportive of strengthening the Czech Republic's ties with Taiwan. Shortly after his election he accepted a congratulatory call from the Taiwanese President Tsai Ing-wen, and he also expressed his willingness to meet her. Even more willingness to openly engage with Taiwan has been exhibited by the Czech legislators.

In March 2023 a 150-member-strong delegation headed from the Czech Republic to Taiwan. Significantly it included the directors of the Czech Counterintelligence Service and the Czech Cybersecurity Watchdog. This visit clearly indicates the Czech Republic's willingness to deepen its relations with Taiwan beyond purely economic and cultural dimensions.

To fully comprehend the current stance of the Czech politicians towards China it's important to consider the domestic drivers and the context and historical narrative that has shaped Czech Republic perceptions of China.

Since gaining independence in 1989 China has been a recurring yet relatively peripheral topic for the Czech domestic political debates. The foundations of Czech foreign policy were established by President Vaclav Havel and his administration who drew upon their direct negative experience with communism. Consequently, China was viewed as an authoritarian regime with morally objectionable policies and initiatives that warranted opposition rather than acceptance.

This perspective has encompassed Tibet and Taiwan which were perceived as smaller entities surrounded and threatened by a larger authoritarian regime. This historical memory of

Czechoslovakia's occupation by Nazi Germany and later by Warsaw Pact troops holds significant influence over the perception and also over the international affairs among Czech politicians and the general public alike.

However, the longstanding value-based approach towards China showed first cracks during the economic slowdown at the end of 1990s and further eroded the financial crisis of the late 2000s prompting political representatives to gradually embrace a more favorable view of China as an economic opportunity for the Czech companies.

At the same time China started displaying interest in the markets of Central and Eastern Europe and initiated an establishment of the so-called 16+1 Platform. The Czech Republic joined the format regarding it as a strategic mechanism to maintain China's interest in the country, to attract Chinese FDI, and also to give Czech policy makers a privileged access to influential circles in Beijing. However, the economic benefits expected by the Czech Republic have not fully materialized.

While China ranks as the Czech Republic's second largest economic partner, following Germany, it has been imports which dominate the bilateral trade. When it comes to investments Taiwanese investments have been responsible for creating more jobs as Chinese investments have primarily taken the form of mergers and acquisitions.

Moreover, China started to employ intimidation towards countries that prioritize relations with Taiwan such as the Czech Republic. An illustrative example is the case of Milos Vystřil, the president of the Czech Senate who faced warnings of paying, I quote here, a heavy price, unquote, following his official visit to Taiwan in 2020.

Lastly, China's decision to back Russia's narratives and demands concerning the war in Ukraine struck a particular nerve. It served as a stark reminder of the importance of security for the Czech Republic and prompted a reassessment of the country's inadequate military spending. It also led to the decision to sign a security cooperation agreement with the United States.

The war in Ukraine may have had however some unintended positive effect. The proactive and confident foreign policy demonstrated by the Baltic states: Poland, Czech Republic, Slovakia, and others in response to the Russian aggression reflects their desire to play a more active role within the European Union. Previously viewed as lacking ambition to shape EU policies these countries are now undergoing their own transformative process. Once fully embracing this experience their concerns may not be limited to Russia alone.

If China is perceived as allying with the Russian objective of pushing NATO back to its pre-1997 enlargement state, it can be expected that Central and Eastern Europe will view Beijing as an explicit threat to its security, a position which the current Czech government seems to adopt in its draft of the security strategy.

Against this backdrop the United States should contemplate deepening the cooperation of the Central and Eastern European countries to tackle the challenges presented by China. Furthermore, the U.S. Congress should advocate for the cultivation of China expertise within European institutions, academia, and policy circles.

I will stop here and I'm looking forward to discussion. Thank you.

**PREPARED STATEMENT OF IVANA KARÁSKOVÁ, CHINA RESEARCH
FELLOW AND CHINA PROJECTS LEAD, ASSOCIATION FOR INTERNATIONAL
AFFAIRS**

Ivana Karásková

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Testimony before the U.S.-China Economic and Security Review Commission Hearing on “Europe, the United States and Relations with China: Convergence or Divergence?”

Thank you for offering me the opportunity to present to the Committee my views on the Czech Republic's foreign policy towards China and the Czech contribution to EU and NATO positions on China. The insights and analysis I present in both written and oral testimony are derived from extensive research conducted through two international projects that I lead, namely MapInfluenCE and China Observers in Central and Eastern Europe (CHOICE).¹ These projects comprehensively map and analyze China's activities and footprint in the region of Central and Eastern Europe.

Introduction

The current Czech coalition government, which took office in December 2021 under the leadership of Prime Minister Petr Fiala, has shown a notable degree of skepticism towards the People's Republic of China. This skepticism has been reflected in the government's announcement of its intentions to revise the country's China strategy, suggesting a departure from the approach taken by previous administrations, and also by the former Czech President Miloš Zeman.²

In a parallel process, the Czech Republic undertakes the revision of its security strategy. A noteworthy aspect of the drafted document is its **explicit recognition of China as a „security threat“, alongside Russia.**³ By openly designating China as a security threat, the Czech Republic signals its concerns regarding a range of issues, including China's interference in democratic processes in the Czech Republic, China's pro-Russia neutrality in the war in Ukraine as well as its expansionist tendencies and their potential implications for regional stability in the Indo-Pacific. This development underscores the evolving perception of China's role by the Czech Republic and emphasizes the need for a comprehensive approach that addresses the challenges posed by both Russia and China.

The recent election of President Petr Pavel, a former Chairman of the NATO Military Committee, has further bolstered the government's position. President Pavel has exhibited a supportive stance towards strengthening the Czech Republic's ties with Taiwan, as evidenced by his acceptance of a congratulatory call from the Taiwanese president Tsai Ing-wen shortly after his election.⁴ Notably, President Pavel has also expressed his willingness to meet with President Tsai in some capacity.

Even more willingness to openly engage with Taiwan has been exhibited by the Czech legislators. In March 2023, Markéta Pekarová Adamová, the Czech Speaker of the Chamber of Deputies, spearheaded a delegation from the Czech Republic to Taiwan.⁵ This delegation, consisting of 150

¹ www.mapinfluence.eu, www.chinaobservers.eu

² „Programové prohlášení vlády České republiky [Program Statement of the Government of the Czech Republic],“ Government of the Czech Republic, January 2022, <https://www.vlada.cz/cz/programove-prohlaseni-vlady-193547/>.

³ Kateřina Gruntová, „Jasně a konkrétně. Česko poprvé označí Rusko a Čínu jako bezpečnostní hrozbu [Clearly and concretely. Czechia will name Russia and China security threats for the first time],“ *iRozhlas*, May 8, 2023, https://www.irozhlas.cz/zpravy-domov/cina-rusko-hrozba-dokument-strategie-ministerstvo-obrany-jan-jires_2304080500_gut.

⁴ Daniela Lazarová, "Czech president-elect causes stir with call to Taiwan," *Radio Prague International*, January 31, 2023, <https://english.radio.cz/czech-president-elect-causes-stir-call-taiwan-8773809>.

⁵ Kuo Chien-shen, Lai Yu-chen and Sean Lin, „Czech lower house speaker Adamová in Taiwan with huge delegation,“ *CNA*, March 25, 2023, <https://focustaiwan.tw/politics/202303250015>.

members, was the largest ever in the history of bilateral relations between the two nations. Significantly, the delegation comprised not only businesspersons, politicians, academics, and journalists, but also included the directors of the Czech intelligence service and the Czech cybersecurity watchdog.⁶ The visit can be interpreted as a clear indication of the Czech Republic's evolving stance and willingness to deepen its relations with Taiwan beyond their purely economic and cultural dimensions.

Domestic drivers of the Czech Republic's China policy

To fully comprehend the current policy stance of the Czech politicians towards China, it is important to consider the domestic political context and the historical narrative that has shaped Czech perceptions of China.

Since gaining independence in 1989, China has been a recurring but relatively peripheral topic in domestic Czech political debates. The foundations of Czech foreign policy were established by President Václav Havel and his administration, who drew upon their direct negative experience with communism. Consequently, China was viewed through the lens of the Czech historical narrative, seen as an authoritarian regime with morally objectionable policies and initiatives that warranted opposition rather than acceptance.⁷

This perspective also encompassed Tibet and Taiwan, which were perceived as kindred spirits facing common challenges, being smaller entities surrounded and threatened by a larger authoritarian regime. The historical memory of Czechoslovakia's occupation by Nazi Germany on the eve of World War II and later the events of the Prague Spring in 1968, ended by the military intervention of the Warsaw Pact troops, holds significant influence over the interpretation of contemporary international affairs among Czech politicians and the general public.

However, the longstanding value-based approach towards China showed first cracks during the economic slowdown at the end of 1990s and further eroded during the financial crisis of late 2000s, prompting political representatives to gradually embrace a more favorable view of China as an economic opportunity for struggling Czech companies.⁸ In 2013, the Social Democratic government, with the support of President Miloš Zeman, announced the policy of "restart" in the Czech Republic's relations with China, emphasizing economic engagement aimed at benefiting Czech businesses operating in the Chinese market.⁹

At the same time, China started displaying interest in the markets of Central and Eastern Europe, and initiated an establishment of the so-called „16+1 platform“¹⁰, seeking to diversify its exports, which had been impacted by declining demand for Chinese goods in Western markets following the financial crisis. This mutual economic interest served as a catalyst for a shift in the Czech Republic's perception of China, from an instinctively critical stance to a position that focused on potential benefits of closer economic ties.

⁶ Ondřej Kundra, „Ředitel BIS jede na Tchaj-wan [Director of Security Information Service travels to Taiwan],“ *Respekt*, March 22, 2023, <https://www.respekt.cz/agenda/respekt-reditel-bis-jede-na-tchaj-wan>.

⁷ Ivana Karásková, Alžběta Bajerová and Tamáš Matura. *Images of China in the Czech and Hungarian Parliaments* (Prague, Czech Republic, Association for International Affairs (AMO), 2019).

⁸ *Ibid.*

⁹ „Restart spolupráce mezi Českou republikou a Čínou [Restart of cooperation between the Czech Republic and China],“ Government of the Czech Republic November 12, 2013, <https://www.vlada.cz/cz/media-centrum/aktualne/restart-spoluprace-mezi-ceskou-republikou-a-cinou--113297/>.

¹⁰ 16 European nations joined the initiative in 2012, i.e. Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Montenegro, North Macedonia, Poland, Romania, Serbia, Slovakia and Slovenia, and the grouping started to be known as „16+1“. In 2019, Greece joined the format. In 2021, Lithuania stopped participating, followed by Estonia and Latvia in 2022. The current number of European countries in the format for cooperation with China is 14.

Following the "restart" of Czech-China relations, a period of apparent harmony and narratives of mutual profitability unfolded between the two governments. Despite that, the China-skeptic voices that had dominated the Czech-China debate prior to this period did not fade away. Instead, they found new avenues to criticize the government's handling of the relations with China, highlighting questionable connections between Czech politicians and the pro-China business lobby, which they painted as murky clientelist structures. Furthermore, these critics made a concerted effort to ensure that human rights concerns remained at the forefront of the discourse.¹¹

This tension led to a conceptual deadlock on foreign policy towards China among political parties and individual policymakers. Advocates of economic benefits criticized the principled stance grounded in a human rights-oriented approach, which is deeply ingrained in modern Czech political tradition, deeming it impractical. On the other hand, those who supported closer economic ties with China were instinctively accused of endorsing morally compromised positions. The attractiveness of the China issue quickly became apparent to political parties, the media, and the general public, resulting in frequent discussions thereof during Czech parliamentary and presidential campaigns.

This deadlock has created a complex and contentious landscape where different perspectives clash, reflecting the challenges of reconciling economic interests, human rights concerns, and domestic political calculations in Czech foreign policy towards China.

Within this complex context, it is noteworthy that proponents advocating for enhanced economic cooperation with China have not vanished from the ongoing discourse, despite their current marginalization. Their perspective remains grounded in the rationale of pursuing closer ties with China for economic benefits. It is important to recognize that the Czech elites, when considering their position on Taiwan, have approached the issue not solely from the perspective of Taiwan's democratic status, but also as an economic opportunity. The emphasis on economic considerations underscores the multifaceted nature of the Czech Republic's approach to China, where strategic and value-based calculations intertwine with economic motivations. By acknowledging these dynamics, a more comprehensive understanding of the factors influencing Czech foreign policy in relation to both China and Taiwan can be constructed.

In addition to the values-based and economic arguments surrounding China, the Czech Republic has engaged in a significant discourse highlighting the security challenges posed by China, particularly in the realm of cybersecurity. The Czech Republic has actively contributed to the discussion on China by emphasizing its role as a cyber actor and the potential threats it poses to national security.¹²

In late 2018, the Czech Republic's state agency, the National Authority on Cyber and Information Security (NÚKIB), took a significant step by issuing a public warning¹³ specifically targeting Chinese telecom companies, ZTE and Huawei. This move positioned the Czech Republic as an early skeptic in the broader European discourse regarding the involvement of Chinese telecom companies in 5G networks. The warning from NÚKIB prompted a proactive response from the Czech government, leading to a comprehensive evaluation of the utilization of ZTE and Huawei products in the networks of state institutions covered by the cybersecurity law. As a result, Huawei

¹¹ Ivana Karásková, Alžběta Bajerová and Tamáš Matura. *Images of China in the Czech and Hungarian Parliaments* (Prague, Czech Republic, Association for International Affairs (AMO), 2019).

¹² Summary of the debate e.g. Petr Lang, Tomáš Koutský, and Ondřej Černý, *Nejen Huawei: čínské firmy a naše bezpečnost* [Not just Huawei: Chinese companies and our security] (Prague, PSSI, 2020), https://www.pssi.cz/download//docs/8096_studie-nejen-huawei.pdf.

¹³ "Varování", NÚKIB, December 17, 2018, https://nukib.cz/download/uredni_deska/Varovani_NUKIB_2018-122-17.pdf.

was excluded from participating in tenders for the construction of a tax portal¹⁴ and the implementation of body scanners at Prague's Václav Havel airport.¹⁵

The Czech Republic's cautious approach to Chinese telecom companies continued to evolve. In May 2019, the international conference on the security of 5G networks held in Prague resulted in the formulation of the "Prague Proposals."¹⁶ These proposals aligned with the rationale behind NÚKIB's warning, focusing on non-technical aspects, such as political and economic behavior, when assessing the risks associated with foreign vendors. By broadening the scope beyond technical considerations, the Czech Republic emphasized the significance of evaluating the potential risks posed by Chinese telecom companies based on a comprehensive analysis of their political and economic conduct.

Building upon these developments, the Czech Republic further solidified its stance on 5G security by signing a joint declaration with the United States in 2020.¹⁷ This declaration underscored the shared concerns regarding the security of 5G networks and demonstrated the Czech Republic's commitment to working closely with the United States to address these issues.

To sum up, as a result of this dynamics, a part of the Czech electorate which voted for the current Czech government expects a cautious and principled approach towards China, one that takes into consideration concerns over human rights and potential threats to national sovereignty, while also expecting economic benefits stemming from increased cooperation with Taiwan.

Participation in the format for cooperation between China and Central and Eastern Europe: economic and political rationale

A decade ago, China established its foothold in Central and Eastern Europe through the "16+1 format" of cooperation. This initiative aimed at diversifying trade routes for Central and Eastern European countries, which traditionally had strong ties with powers such as Russia, Germany, and the United States. Initially, the Central and Eastern European countries welcomed China's interest, viewing it as an opportunity for economic diversification and increased Chinese investment in their respective countries.¹⁸

Previous Czech governments regarded the format as a strategic mechanism to maintain China's interest in the country. Participation in the format for cooperation with China was expected to provide the Czech Republic with privileged access to influential circles within the Chinese political establishment, positioning Prague as a pivotal gateway for China's engagement with Europe. This sentiment was strongly articulated by former Czech President Miloš Zeman, who emphasized the country's potential role as "China's gateway to Europe."¹⁹

¹⁴ Jason Hovet and Robert Muller, „China's Huawei excluded from Czech tax tender after security warning”, *Reuters*, January 30, 2019, <https://www.reuters.com/article/us-czech-security/chinas-huawei-excluded-from-czech-tax-tender-after-security-warning-idUSKCN1PO10G>.

¹⁵ „Pražské letiště vyloučilo kvůli bezpečnosti z výběrového řízení skenery od Huawei,” *Aktuálně*, August 23, 2019, <https://zpravy.aktualne.cz/ekonomika/prazske-letiste-vyloucilo-kvuli-bezpecnost-z-vyberoveho-rize/r~d1f8835ac5c911e9b5e8ac1f6b220ee8/>.

¹⁶ „Prague 5G Security Conference announced series of recommendations: The Prague Proposals,” Government of the Czech Republic, May 3, 2019, <https://www.vlada.cz/en/media-centrum/aktualne/prague-5g-security-conference-announced-series-of-recommendations-the-prague-proposals-173422/>.

¹⁷ „Babiš a Pompeo na dálku podepsali deklaraci k mobilním sítím 5G,” *Seznam Zprávy*, May 6, 2020, <https://www.seznamzpravy.cz/clanek/babis-a-pompeo-na-dalku-podepsali-deklaraci-k-mobilnim-sitim-5g-104523>.

¹⁸ Ivana Karásková, Alicja Bachulska, Ágnes Szunomár, and Stefan Vladislavljev (eds.). *Empty shell no more: China's growing footprint in Central and Eastern Europe* (Prague, Czech Republic, Association for International Affairs (AMO), 2020).

¹⁹ Jason Hovet and Jan Lopatka, "Chinese, Czech presidents forge strategic partnership on Prague visit,” *Reuters*, March 29, 2016, <https://www.reuters.com/article/us-czech-china-idUSKCN0WV1F0>.

Nonetheless, this approach came at a cost. Externally, the remaining EU member states and the European Commission viewed the format as a potential Trojan horse²⁰ employed by China, raising concerns over its potential to undermine the EU's unity on China-related issues, even if such unity was sometimes perceived as hypothetical. Domestically, the opposition within the Czech Republic not only questioned the ethical implications²¹ of engaging with an authoritarian regime but also highlighted the failure to fulfill the promised economic advantages of intensified bilateral ties.²² Furthermore, the country's counterintelligence service repeatedly sounded the alarm regarding China's expanding influence over domestic politicians.²³ The diligent work of civil society organizations and investigative journalists brought to light instances of China's manipulation of media narratives,²⁴ infiltration into academic and think tank circles,²⁵ and attempts to disseminate pro-China narratives through mainstream and 'alternative' media²⁶ as well as social media platforms²⁷ in the Czech Republic.

The participation of Central and Eastern European countries in the "16+1" platform was primarily motivated by pragmatic economic considerations rather than a genuine affinity for China. These countries held high expectations for substantial Chinese investment and the resulting economic benefits, but such expectations have not been fully realized. The overall trend of Chinese investment in Europe has been on the decline since 2016, and the Central and Eastern European region received a meager 3 percent share of this investment in 2020.²⁸

Analysis of the economic data reveals that prior to the outbreak of the coronavirus pandemic, Chinese foreign direct investment (FDI) in the Central and Eastern European region remained modest and was largely concentrated in a select few countries, namely Hungary, the Czech Republic, and Poland. Other countries in the region did not witness significant investments, particularly in sectors with higher value-added potential.²⁹ It appears that Central and Eastern

²⁰ Alicja Bachulska, „Central and Eastern Europe is no Chinese Trojan horse,“ *East Asia Forum*, December 5, 2020, <https://www.eastasiaforum.org/2020/12/05/central-and-eastern-europe-is-no-chinese-trojan-horse/>.

²¹ Ivana Karásková, Alžběta Bajarová and Tamáš Matura. *Images of China in the Czech and Hungarian Parliaments* (Prague, Czech Republic, Association for International Affairs (AMO), 2019).

²² MP Jakub Michálek (Pirates) quote, untitled, Demagog, <https://demagog.cz/vyrok/18486>.

²³ E.g. „Annual Report for 2020“, Security Information Service, undated, <https://www.bis.cz/public/site/bis.cz/content/vyrocnizpravy/ar2020en-2.pdf>.

²⁴ Ivana Karásková, „How China Influences Media in Central and Eastern Europe,“ *The Diplomat*, November 19, 2019, <https://thediplomat.com/2019/11/how-china-influences-media-in-central-and-eastern-europe/>.

²⁵ Alžběta Bajarová, „The Czech-Chinese Centre of Influence: How Chinese Embassy in Prague Secretly Funded Activities at the Top Czech University,“ China Observers in Central and Eastern Europe (CHOICE), November 7, 2019, <https://chinaobservers.eu/the-czech-chinese-centre-of-influence-how-chinese-embassy-in-prague-secretly-funded-activities-at-the-top-czech-university/>.

²⁶ Ivana Karásková (ed.), *From East with Love: Dissecting Pro-China Bias in Czech and Slovak Alternative Media* (Prague, Czech Republic, Association for International Affairs (AMO), 2022), https://www.amo.cz/wp-content/uploads/2022/04/Mapinfluence_policy-paper_from-the-east-with-love_A4_web_06.pdf.

²⁷ Filip Šebok and Ivana Karásková, Chinese propaganda on COVID-19: Eldorado in Czech cyberspace, In: Ivana Karásková (ed.) *China's propaganda and disinformation campaigns in Central Europe* (Prague: Czech Republic, Association for International Affairs (AMO), 2020), p. 9-12.

²⁸ Agatha Kratz, Max J. Zenglein, and Gregor Sebastian, „Chinese FDI in Europe: 2020 Update“, MERICS, June 16, 2021, <https://merics.org/en/report/chinese-fdi-europe-2020-update>.

²⁹ Ivana Karásková, Alicja Bachulska, Ágnes Szunomár, and Stefan Vladisavljev (eds.). *Empty shell no more: China's growing footprint in Central and Eastern Europe* (Prague, Czech Republic, Association for International Affairs (AMO), 2020).

European governments may have presented an exaggerated depiction of China's presence, as the reported figures often included planned investments that ultimately failed to materialize.³⁰

In the case of the Czech Republic, an examination of trade data reveals the significant importance of China as a trading partner for the country. China ranks as the Czech Republic's second-largest economic partner, following Germany. In 2022, the total trade between the Czech Republic and China amounted to 26.9 billion EUR, with imports accounting for 25 billion EUR.³¹ Conversely, the total trade with Taiwan reached 1.67 billion EUR, with imports dominating at 1.37 billion EUR.

However, a closer look at investment data reveals a different picture. Taiwanese investments in the Czech Republic have been responsible for creating more jobs between 1993 and 2020, with 24,000 jobs generated compared to the approximately 4,200 jobs³² created by Chinese investments in the country. This underscores an argument put forth by some Czech politicians, suggesting that Chinese investments have primarily taken the form of mergers and acquisitions, rather than contributing significantly to the creation of new job opportunities.

In contrast, Taiwanese company Foxconn not only serves as a significant employer in the Czech Republic but also stands out as the country's second-largest exporter. According to the Czech national investment agency, inward investment figures reveal that Taiwan has outpaced China, with 792 million EUR invested in the Czech Republic compared to China's 505 million EUR, spanning the period from 1993 to 2020.³³

The growing disillusionment arising from the perceived lack of tangible outcomes from the cooperation with China has been exacerbated by China's response to political challenges. China has displayed readiness to employ political intimidation towards countries that prioritize relations with Taiwan. An illustrative example is the case of Miloš Vystrčil, the President of the Czech Senate, who faced warnings of paying a "heavy price" following his official visit to Taiwan in 2020.³⁴ Similarly, Lithuania encountered economic sanctions as a consequence of its decision to establish the Taiwanese Representative Office in Vilnius in 2021, diverging from the commonly used title of Taipei Economic and Cultural Office (TECO).³⁵ These instances highlight China's assertive approach in exerting pressure on countries that engage with Taiwan, adding to the existing disillusionment and skepticism surrounding the outcomes of China-related engagements.

The more assertive diplomatic approach adopted by China, coupled with the perceived lack of economic benefits resulting from cooperation, has significantly impacted the platform for collaboration among Central and Eastern European countries. The repercussions of these factors

³⁰ Chinese Investment in Central and Eastern Europe, CEECAS, undated, <https://www.china-cee-investment.org/>.

³¹ UN ComTrade Database, <https://comtradeplus.un.org/TradeFlow?Frequency=A&Flows=X&CommodityCodes=TOTAL&Partners=156&Reporters=203&period=2022&AggregateBy=none&BreakdownMode=plus>.

³² „Vystrčilova cesta na Tchaj-wan neohrozila čínské investice. Dopady jsou zanedbatelné, tvrdí CzechInvest [Vystrčil's trip to Taiwan did not endanger Chinese investment. The impact is negligible, says CzechInvest],“ *iRozhlas*, August 27, 2021, https://www.irozhlas.cz/zpravy-domov/milos-vystrcil-tchaj-wan-investice-czechinvest-predseda-senatu_2108271320_pat.

³³ *Ibid.*

³⁴ Ben Blanchard and Yew Lun Tian, "Czech senate speaker will pay 'heavy price' for Taiwan visit, China says," *Reuters*, August 31, 2020, <https://www.reuters.com/article/uk-taiwan-czech-china/czech-senate-speaker-will-pay-heavy-price-for-taiwan-visit-china-says-idUKKBN25R02W>.

³⁵ Matthew Reynolds and Matthew P. Goodman, „China's Economic Coercion: Lessons from Lithuania,“ Center for Strategic and International Studies (CSIS), May 6, 2022, <https://www.csis.org/analysis/chinas-economic-coercion-lessons-lithuania>.

became evident when Lithuania made the decision to withdraw from the platform in May 2021,³⁶ followed by Estonia and Latvia in August 2022.³⁷ There were also expectations that the Czech Republic, due to the critical stance expressed by members of the current coalition government, would eventually follow suit. However, the significance of this issue has been somewhat diminished, as neither of the governing parties had explicitly pledged to discontinue participation in the format in their political programs published prior to the general elections in 2021.³⁸ The current Czech government perceives the format as inactive. The Deputy-Minister of Foreign Affairs, Jiří Kozák, hinted in February 2023 that an exit from the platform may be expected when he said: „The 14+1 format did not meet expectations. Our participation does not make sense and we are therefore preparing a response to this question for the forthcoming review of relations with China. For us, there is currently no benefit in participating and we are not participating in any current events.“³⁹

The war in Ukraine as a factor shaping perception of China in Central and Eastern Europe

The shifting perception among Central and Eastern European countries, with the exception of Hungary and Serbia, towards cooperation with China reflects their growing recognition of the potential illusory nature of the economic benefits promised by such collaboration. Moreover, these countries are increasingly acknowledging the significant political and security risks associated with strengthening ties to China.

The concerns of Central and Eastern European countries have been further exacerbated by China's support for Russia's opposition to the enlargement of NATO. This support was evident in the joint communiqué⁴⁰ signed by Xi Jinping and Vladimir Putin on February 4, 2022, on the sidelines of the Olympic Games in Beijing. The cryptic statement expressed China's „sympathy for and support of the Russian Federation's proposals to establish long-term legally binding security guarantees in Europe“. Central and Eastern European countries quickly interpreted this as an endorsement of Russia's demands to revert NATO borders to the pre-1997 situation.

In essence, China's backing of Moscow's December proposals aligns with Putin's call for NATO to withdraw troops and weapons from significant portions of Eastern Europe, including countries such as Poland, the Czech Republic, Slovakia, and the Baltic states.⁴¹ This development has heightened concerns within Central and Eastern Europe and has prompted a reassessment of their engagement with China, as it is perceived as indirectly supporting Russian efforts to reshape NATO's security architecture.

China's decision to support Russia's assertions regarding the redesign of the European security architecture has exacerbated the region's growing concerns regarding China's intentions. Beijing's choice of backing Russia stroke a particularly sensitive nerve. Central and Eastern European

³⁶ Stuart Lau, „Lithuania pulls out of China's '17+1' bloc in Eastern Europe,“ *Politico*, May 21, 2021, <https://www.politico.eu/article/lithuania-pulls-out-china-17-1-bloc-eastern-central-europe-foreign-minister-gabrielius-landsbergis/>.

³⁷ Stuart Lau, "Down to 14 + 1: Estonia and Latvia quit China's club in Eastern Europe,“ *Politico*, August 11, 2022, <https://www.politico.eu/article/down-to-14-1-estonia-and-latvia-quit-chinas-club-in-eastern-europe/>.

³⁸ Ivana Karásková, „As Czechs Head to the Polls, China Remains on the Margins,“ *China Observers in Central and Eastern Europe (CHOICE)*, October 8, 2021, <https://chinaobservers.eu/as-czechs-head-to-the-polls-china-remains-on-the-margins/>.

³⁹ „Česko zvažuje, že vystoupí z platformy 14+1 [The Czech Republic is considering withdrawing from the 14+1 platform],“ *Deník N*, February 20, 2023, <https://denikn.cz/minuta/1084594/>.

⁴⁰ „Joint Statement of the Russian Federation and the People's Republic of China on the International Relations Entering a New Era and the Global Sustainable Development,“ President of Russia's office, February 4, 2022, en.kremlin.ru/supplement/5770.

⁴¹ Patrick Reeve, „Russia makes sweeping demands for security guarantees from US amid Ukraine tensions,“ *ABCNews*, December 7, 2021, <https://abcnews.go.com/International/russia-makes-sweeping-demands-security-guarantees-us-amid/story?id=81821816>.

countries view NATO, and by extension the United States, as a crucial security guarantor. Their prioritization of security is deeply rooted in their historical memory, which has been shaped by the experience of subjugation under Nazi Germany and the Soviet Union in the previous century. For these countries, security is non-negotiable, whereas economic preferences may be subject to debate and restructuring based on political considerations.

The Russian invasion of Ukraine served as a stark reminder of the importance of security for Central and Eastern European countries in close proximity to Ukraine. It prompted a reassessment of their inadequate military spending. In the Czech Republic it also led to the decision to sign a security cooperation agreement with the United States, enhancing the ties in the defense realm.⁴²

Unique or not? The Czech Republic's view of China in comparison to other EU countries

The proactive and confident foreign policy demonstrated by the Baltic states, Poland, the Czech Republic, Slovakia, and other countries in response to the Russian aggression against Ukraine reflects their desire to play a more active role within the European Union. Previously viewed as lacking ambition to shape EU policies, these countries are now undergoing their own transformative process. Once fully embracing this experience, their concerns may not be limited to Russia alone. If China is perceived as aligning with the Russian objective of pushing NATO back to its pre-1997 enlargement state, it can be expected that Central and Eastern Europe will view Beijing as an explicit threat to their security, a position which the current Czech government seems to adopt in its draft of the revised security strategy.

China has recognized its declining influence in certain Central and Eastern European countries, including the Czech Republic. In response, China attempted to mitigate this trend through a series of "damage control missions" in 2022.⁴³ However, these efforts were met with reluctance from the local political leaders who showed little interest in engaging with China. Notably, none of the countries in the region hosted a commemoration for the 10th anniversary of the establishment of the cooperation format with China. The inability of China to provide acceptable explanations for its positions has further deepened skepticism and posed challenges to fostering a constructive relationship.

Adding to the concerns of Central and Eastern European countries is the occasional use of blunt, insensitive remarks by Chinese officials. For example, the Chinese Ambassador to France, Lu Shaye, questioned the sovereignty of the post-Soviet republics, which has heightened the distrust felt by these countries towards China.⁴⁴ This situation has fueled fears that China may adopt an ultra-realist understanding of international affairs, where the strong exercise their power while the weak suffer the consequences, as famously described by Thucydides.

It is important to note that the perspective held by many Central and Eastern European countries regarding the relationship with China is not universally shared among all EU member states, particularly the larger powers such as Germany and France. These countries argue against a simultaneous deterioration of relations with both China and Russia, given the already existing confrontational dynamics with Russia due to the ongoing conflict in Ukraine. Consequently, the concept of "de-coupling" from China has not gained widespread support within the EU, as it is perceived as being primarily advocated by the United States and not being viable for Europe in the situation of economic interdependence between the EU and China.

⁴² C. Todd Lopez, „U.S., Czech Defense Leaders Sign Security Agreement,“ US Department of Defense, May 23, 2023, <https://www.defense.gov/News/News-Stories/Article/Article/3404724/us-czech-defense-leaders-sign-security-agreement/>.

⁴³ E.g. Noah Barkin, „Watching China in Europe - May 2022“, German Marshall Fund (GMF), May 4, 2022, <https://www.gmfus.org/news/watching-china-europe-may-2022>.

⁴⁴ Una Aleksandra Berzina-Čerenkova, "Speaking Whose Mind? Why the Consequences of Lu Shaye's Comments Go Beyond the Baltics,“ China Observers in Central and Eastern Europe (CHOICE), April 25, 2023, <https://chinaobservers.eu/speaking-whose-mind-why-the-consequences-of-lu-shayes-comments-are-wider-than-the-baltics/>.

Instead, an alternative approach known as "de-risking" has emerged, which was articulated by the President of the European Commission, Ursula von der Leyen, in her speech⁴⁵ on March 30, 2023, preceding her visit to Beijing. This concept emphasizes the need to address and mitigate the potential risks associated with engaging China, rather than pursuing a complete disengagement. The term "de-risking" reflects the EU's attempt to navigate its relationship with China in a manner that minimizes potential adverse consequences and promotes more balanced and strategic engagement, though the real implications of the concept may be yet less clear.

Conclusion

The differing positions within the EU on China highlight the complexity and ongoing debate surrounding the region's approach to China. Some countries, particularly those in Central and Eastern Europe, express growing concerns about China's intentions and its alignment with Russia's objectives. Since Russia invaded Ukraine, these countries, previously viewed as lacking ambition to shape EU policies, have been undergoing a transformative process, exhibiting more agency in formulation of EU foreign and security agenda. Once fully embracing this experience, their concerns may not be limited to Russia alone. If China is perceived as aligning with the Russian objective of pushing NATO back to its pre-1997 enlargement state, it can be expected that Central and Eastern Europe will view Beijing as an explicit threat to their security. Other EU members, however, advocate for a more cautious approach, emphasizing the importance of maintaining dialogue and managing risks without fully severing ties with China. This divergence of perspectives underscores the challenges of forming a harmonized EU policy on China and the complex dynamics at play within the bloc.

Against this backdrop, it becomes important for the United States to seriously contemplate deepening its cooperation with Central and Eastern European allies to effectively tackle the complex and multifaceted challenges presented by China. In the same time, it is imperative to acknowledge, that the United States' endeavors to establish a coordinated strategy to address China's rising influence may encounter resistance from prominent EU member states, notably France and Germany. These economic and political powerhouses are unlikely to wholeheartedly embrace U.S. initiatives if they perceive them as protective measures that undermine their own economic interests.

Given China's significant impact on various aspects of international affairs such as security, trade, and diplomacy, a comprehensive understanding of China's motivations, policies, and actions is vital. Therefore, the United States Congress should advocate for the cultivation of China expertise within European institutions, academia, and policy circles.

Investing in the exchange of China expertise with Europe would yield several benefits for the United States and Europe alike. First and foremost, it would enable policymakers and scholars to gain a more profound insight into China's strategic objectives, helping to identify areas of convergence and divergence between the transatlantic partners. Such enhanced understanding would facilitate the formulation of more informed and effective joint policies and responses to China's evolving role on the world stage.

⁴⁵ „Speech by President von der Leyen on EU-China relations to the Mercator Institute for China Studies and the European Policy Centre,“ European Commission, March 30, 2023, https://ec.europa.eu/commission/presscorner/detail/en/speech_23_2063.

PANEL I QUESTION AND ANSWER

COMMISSIONER MANN: Thank you very much.

It is now time for questions. We have decided we are going to be doing the questions in a simple alphabetical order, and we will start then with the Chairman of the Commission, Commissioner Bartholomew.

CHAIRMAN BARTHOLOMEW: Thank you. I'm going to pass on this round and might have questions at the end.

COMMISSIONER MANN: All right. Commissioner Borochoff?

COMMISSIONER BOROCHOFF: Thank you. All of you in one manner or another have related in your testimony that many in Europe expected the -- and hoped that China would intervene a little bit with Russia when the Ukraine conflict started and that there was some surprise that they were vehemently aligned with Russia and remain so.

I'd like to hear from any of you that would like to talk about it, but I would start with you, Mr. Small, because you talk about it in your written testimony. Given the incredible amount of economic activity that has occurred in the past between Germany and China, Czech and China, and the other EU countries, is it possible that there will be -- do you believe that there will be a change in that tremendous leaning toward Russia, or is it really an inexorable decision? And if it is one that they aren't going to change, what is the -- what in your opinion is the reason that they view Russia so important to them versus the possibility of alienating all of Europe eventually?

MR. SMALL: Thank you very much for the question, Commissioner. Yes, absolutely. In the run-up to the invasion European officials, German officials went to the Chinese government and said we would like you to at least do what you did in 2014, something that looks like real neutrality, as was -- as you exhibited for Crimea. That would still be helpful. We don't expect very much of you beyond that, but we would hope you will do at least that. And they were rebuffed at that point.

And then of course you had the joint no limits statement. This already kind of raised alarms. There was a period of some hope that there may be some level of distancing, particularly when you saw the statements from Putin at the Samarkand Summit with Xi Jinping about Chinese concerns and the willingness on Xi Jinping's part to repeat pretty much boilerplate statements on nuclear weapons use.

I think you saw sort of surging European hopes around -- this time around barley and things like that, that China may occupy a more constructive role. By the time you get to Xi Jinping's visit to Moscow I think people have been essentially disabused of this notion. I think this was trailed as a peace mission by Chinese diplomats.

I think it was absolutely clear that Xi Jinping had no intention of even pretending that that was the case. And the European Council meeting that took place after the Xi Jinping trip to Moscow I think was characterized by real concern on the part of European leaders about what the trajectory of China-Russia relations actually was.

I think the analysis on the Chinese side is still that in the scheme -- the wider scheme of competition with the United States and to a certain extent with the West as a whole that Russia is an important enough across-the-board ally to be worth paying a price for the deepening of this relationship, that there is no other partner in the context of this struggle that adds as much and that China benefits from as much comprehensively in terms of military support, ideological coordination, political coordination, some of the kind of in some ways more limited economic benefits evidently contrast with what they're able to achieve with Europe, but also that the fallout

can be contained, that it can still be possible to maintain a certain level of an economic relationship with Europe consistent with the sort of deepening ties with Russia that they see. They know that if they cross certain thresholds and they've had the warnings made very clearly to them by European leaders that things could get a lot worse. It's one of the only absolutely consistent lines that European leaders have been giving to China in the last few months, that there could be a real rupture in relations if China were to proceed with lethal aid.

So there is an understanding that they want to limit some of the fallout and that they think they can limit some of the fallout, but some of these costs that they see in Europe -- and the costs are made very clear, as Dr. Karásková mentioned -- I mean in Central and Eastern Europe in particular these -- the damage to relations has been incredibly pronounced.

But I think it's reconditioned thinking in Europe so that there's a different level of understanding essentially of China as an enabler to security threats in Europe, but it has -- in the scheme of I think their assessment of the strategic context that they face they appear to see this as a price worth paying.

COMMISSIONER BOROCHOFF: I think I asked a question that would -- we don't have enough time for everybody to answer, and forgive me for that. So I would like to revisit that later if we have time.

Thank you very much for that answer.

COMMISSIONER MANN: Commissioner Cleveland?

COMMISSIONER CLEVELAND: Thank you. Thank you all for coming.

I'd like to understand Germany's position a little more clearly given that all of you have characterized Germany as -- sorry? Oh, you've all characterized Germany as having a fairly dominant relationship.

Mr. Barkin, if you could elaborate a little bit on your characterization that German companies are doing well and making good profits and that there has been some shift to this localization of in-China/for-China approach. I'm interested in whether or not there's production, manufacturing, and sales of German products in Germany -- sorry, in China or there is production, manufacturing for sales overseas.

And to that end, Mr. Stanzel, you talked a little bit about exporting. I'm wondering if a company like KUKA is viewed as now a Chinese company or is it still considered a German company and are they selling in China or are they selling for the overseas market?

MR. BARKIN: I'm happy to begin. Thank you very much for the question. I think first I would just point out that there is a vigorous debate going on within Germany, perhaps more vigorous than in any other European country, about the course of China policy. We have -- the government is going to be coming out we think perhaps early next month with a China strategy, but there are some divisions within the government.

Chancellor Olaf Scholz has perhaps a more risk-averse approach. And some of the other ministries; the Foreign Ministry and the Economy Ministry, which are led by the junior coalition parties, the Greens, have been pushing for more of a fundamental rethink including of the economic relationship, reducing dependencies, and even leaning on German companies to reduce their presence there.

If you look at how German companies are behaving in China, I think it very much depends on various factors: The sector that they operate in, the size of the company, how big is their presence in China, I think we have a sort of dual phenomenon at the moment going on. Some of the big companies who are heavily invested in China are adopting a sort of in-

China/for-China strategy. That means localizing production, localizing supply chains. By the way, this is also something that is encouraged by China's leadership.

And on the other hand -- and this means more investment certainly in the short and medium-term. On the other hand we're seeing a diversification trend, and many companies are doing both at the same time. We had an announcement from the Siemens CEO today from Singapore announcing 140 million euro investment in their -- in a plant in China that does industrial software and 200 million euro investment in Singapore in a factory from which they're going to be exporting to South Asia and Southeast Asia. So we have this dual phenomenon.

I would say one trend that we've seen is that the big companies are doubling down and the smaller companies dealing with compliance costs and other difficulties in the Chinese market are either reducing investment or pausing investment. That is something that we expect to continue especially with the troubles that the Chinese economy is going through at the moment. Thank you.

DR. STANZEL: Commissioner Cleveland, thank you. Two points: First on KUKA. KUKA was bought, like other German companies as well, with the purpose to first work for the Chinese market. And that is where they began selling to, but with a longer perspective that in case they are successful they will also export from China. If that has begun I do not know.

My second point is on the difference between different kinds of German companies who have invested in China. The mainstay of German industry is famously the small and medium-sized companies, the so-called Mittelstand. And they have been feeling the pressure wherever they are not really considered to be needed in China anymore to get out. And many have started that progress -- process already some while ago, so much so that now they discover that some of the Chinese partners have also gone outside of China to cooperate with them in other places, let's say Thailand or India, or wherever. So that is a process that has already begun a while ago. The larger companies that Noah Barkin has also been speaking about have not been feeling that kind of pressure so far because they've been doing very well in China and outside of China as well. Now with the downturn of the Chinese economy they are feeling that their exports are going down as well. I think in the first four months of this year, already 11 percent. And that hits them unexpectedly and tremendously hard.

Now of course they say we, big companies -- we have been diversifying all our lives. We are not really only invested in China. We have places in India or wherever else. So we'll just need to increase that diversification a little bit and that will be all. But you can see the insecurity is increasing enormously and the main factor, the main reason for that is that the big rebound of the Chinese economy expected for after the COVID policy is not happening so far.

COMMISSIONER MANN: Thank you. Commissioner and Co-Chair Friedberg?

COMMISSIONER FRIEDBERG: Thank you very much, and thanks again to all of our witnesses.

Mr. Small, it seems to me that you've captured quite brilliantly the essence of Xi Jinping and the CCP's view of the current state of affairs in the world, which is to say I agree with you. So if I could sum up what you've said, Xi's China is locked in an intense vying rivalry with the West, of which Europe is an inextricable part. It's inevitable. The aim of his policy then is to -- towards Europe is to slow things to the extent possible to continue to extract whatever benefits he can from Europe and to prevent or slow a unified response, Europe and the United States in particular.

A couple of questions about that: First to what extent is your assessment shared do you think by others in Europe? And secondly, related to that, what would be the implications of accepting this view of China's intentions for current policy?

And if we have time, if you could sort of look forward, what do you think are the CCP's goals in the longer term in this intensifying struggle with the West with respect to Europe? Where do they see Europe fitting in 10, 20 years down the line?

MR. SMALL: Thank you, Commissioner Friedberg. So I think in a certain sense my assessment is not necessarily shared so widely in Europe. I would say that China's behavior, as Commissioner Borochoff's question indicated, has continued to surprise Europeans and European leaders in various important ways over the last few years.

I think there has been an adjustment to the new reality with China, but I think that is part of a process that is still incomplete. I don't think there is necessarily yet an imbedded belief that China sees itself in a wider struggle with the West. I think there are parts of Europe that see China as -- in a struggle with the United States, but particularly this kind of wider sense of a struggle against Western ideology, Western hegemony, all of these kinds of dimension I think is not -- has not yet been an imbedded part of the thinking particularly on the part of European leaders. I think there are still European leaders who have hoped that a slightly independently conceived position on the European side will lead to different results from China.

And I think what we saw particularly through the pandemic on that, to take France as only perhaps the best example, if you look at the behavior of the PRC embassy in France, you look at the approach to medical supplies and everything that played out there versus the benign offers that had been made on the French part, I think the quote from Macron was they'll remember this when the times comes. I think you could see the kind of shock in parts of Europe about this sort of response.

So I think there's still a process underway in moving towards this kind of assessment. I think the Chinese assessments on this of where Europe lands are sometimes ahead of where European leaders themselves are on this.

To the second dimension of this, what would the implications of this be if this assessment -- which I think is shared in parts of Europe, but I think it's still an incomplete process -- what would the implications of that be, I think there would be more realism about what China might be expected to offer about the scope of building a kind of independent relationship that is distinct from the kind of wider allied framework that there with the United States and other partners in Asia.

I think there's still kind of hope in certain corners that it will be possible to construct not necessarily the kind of strategic autonomy version of how this was understood a few years ago, but there's still a level of distinctiveness about the European position that will translate into a different relationship.

I think the refocusing towards what the system competition, system rivalry looks like on an allied-wide basis would be part of the shift in thinking that this kind of understanding of China's view of Europe in the scheme of this competition would then amount to. I'll leave it here.

COMMISSIONER FRIEDBERG: Thank you very much.

MR. BARKIN: I'm happy to add something very, very quickly as we have 30 seconds left.

COMMISSIONER FRIEDBERG: Sure, please. Yes.

MR. BARKIN: I think a big part of China's motivation is driven by economic considerations, that China needs access to the European market.

It would like to retain access to European technology. In conversations with Chinese interlocutors in recent months, European officials have heard this on many occasions.

The message, is more coming. I think there was, China was spooked to a certain extent by the Dutch decision to go along with the U.S. and Japan.

And they're very concerned about further, further moves by Europe in this direction.

COMMISSIONER MANN: Thank you.

Commissioner Glas, I believe is not with us till this afternoon, is that correct?

Commissioner Goodwin?

COMMISSIONER GOODWIN: Thank you, Mr. Chairman, and my appreciation to the panel.

I'm going to pose this question to the panel, and I'd just like to hear a little bit more about European efforts to de-risk, and how those compare to our own efforts here in the United States.

Particularly, I'd like to hear how you might reconcile, or square, some of the European criticisms of the Inflation Reduction Act with this own de-risking strategy.

Which I believe certainly prompted by a lot of the same concerns over securing supply chains, the desire to be more competitive in a lot of critical industries, including clean energy. And the first pillar of which according to the president of the European Commission, was to make the European economy and European industry, more resilient and competitive.

Which sounds precisely how the Administration might describe the Inflation Reduction Act.

So how do you reconcile that tension between what the Europeans are planning to do, how they described what we understand when they say de-risking, with these criticisms that we've heard over the past two months of the Inflation Reduction Act.

Please.

DR. STANZEL: Commission Goodwin, I think that in the view of mainly Brussels and major capitals of Europe, the Inflation Reduction Act was a lesson to both sides. And it is as thus, a thing of the past.

I think many Europeans taken it as something to which the first instinct was the reaction, we'll do the same.

Then that was being discussed. And, it turned out that that has many negative consequences, which were discussed with the American side.

And the feeling in many places in Europe at least, in Germany, is that this is understood on the American side.

And something like the IRA in the same kind of way, especially without prior consultation, it's not going to happen in the same way again.

And I think that would be a positive development because otherwise, there's surprising unity we find across the Atlantic presently.

Both on Ukraine, Russia, and China, it is something extraordinary. And, we need to make efforts to keep it intact.

COMMISSIONER GOODWIN: Thank you. Any other witnesses?

MR. BARKIN: I'm happy to jump in on de-risking very quickly. I agree with Ambassador Stanzel on the IRA, how Europe views that.

I think European de-risking, I would break it down into four buckets. One is reducing dependencies in critical areas.

Two, building resilient supply chains.

Three, protecting critical infrastructure.

And, four, preventing transfers of technology that would bolster China's military.

I think there's consensus on the first three. Reducing dependencies, resilient supply chains, and in critical infrastructure, although Europe has a bit of a spotty record on the latter.

On the last one, establishing red lines in the technology relationship with China, I think there is a lot less consensus.

I think what we're talking about here is both inbound screening, export controls, outbound -- outbound screening.

And this is the debate that I think is going to be taking place in Europe over the coming months, once we get a communication, an economic security strategy in the coming weeks from the European Commission.

This is going to be the big debate, and I think this will be the big debate in the trans-Atlantic relationship where the U.S. wants to ensure that if it's preventing its own firms from doing business with China in certain fields, that European firms are not backfilling, or filling those holes.

COMMISSIONER GOODWIN: Thank you.

Any other witnesses? All right, thank you, Mr. Chairman.

COMMISSIONER MANN: Thank you.

Commissioner Helberg?

COMMISSIONER HELBERG: Thank you, Mr. Chairman, and thank you to our panelists.

My question is for Mr. Small. Would it be accurate to deduct from Xi Jinping's statements and policy that he believes a politically fragmented Europe is in China's interests?

MR. SMALL: Thank you Commissioner.

I think that has been one of the big shifts on the Chinese side. If you go back to the early 2000s and the mid-2000s, I think there was the hope of this kind of independent European poll emerging, with a lot of investment in the European institutions.

There was a belief, and it was around the time of the Iraq War, that you were going to see Europe almost emerging as a sort of soft counterbalance to the United States.

The advisors around the Chinese leadership at the time, really stressed the distinctiveness of what Europe could emerge as in the scheme of a kind of multi-polar world for, for China. I think that thinking has shifted quite markedly. I think the belief has instead, become that it's better to be able to deal with individual European member states, on an individual basis.

That it's better to be able to kind of carve up Europe, as we've seen in efforts directed at Central and Eastern Europe.

At Southern Europe at certain junctures, and the playing off of some of the Big 3 countries.

Some of this was once done under the auspices of a continued perceived value in still seeing the EU emerge as kind of a, a pole that still had the capacity to resist the United States on certain fronts.

But I think the concern in the last decade has been the EU and the Commission, are actually more at the forefront of the most critical approaches and policy areas, vis-a-vis China. And that the kind of collective efforts when even if individual member states will deal with Chinese in certain kinds of language, and make a certain level of care, more and more it will be kicked up to the Brussels end, to do the hard-edged piece of this.

As we saw from the speech of course recently from the Commission President Ursula von der Leyen, which I think went further than you would have seen from any national leader in its identification and characterization of, of China and what needed to be done.

So I think the approach on the Chinese side, and the assessment of Xi Jinping will certainly be that fragmenting Europe on this, and complicating the capacity for Europe to pull together on these questions, is a course of action that they should proceed down.

But I think there's less hope than there was a few years ago, that it's actually possible to achieve this.

I think the carving out of different bits of Europe has diminished as we've heard on the 16+1, and 17+1.

Some of the European countries in the south that were once more disaffected and willing to kind of play the China card in their relationship with Brussels, or Berlin, have become less willing to do so partly because of the kind of fiscal agreements that have been reached within Europe, and through the pandemic.

And spoilers are less useful for China than they used to be. It's different if this is going to kind of lower Committee level, human rights committees.

Or when this is kicked up to leaders' level, as a lot of the China decisions now are in Europe, even a Viktor Orban doesn't necessarily stand up as actively when it involves really spending political capital.

So, I think although that's the objective certainly on the Chinese side at the moment, I think they've found it harder and harder to pull off than even a few years earlier.

COMMISSIONER HELBERG: Does Xi Jinping believe that the dissolution of the European Union, would be in China's interest?

MR. SMALL: I don't think he would see that as a realistic objective. I don't think it, I mean, we've seen the way that China has approached past crises in Europe.

Further back in time, I think there was still a sense that Europe -- China's economic interests, because of the importance of the European market, did rely on the EU, the institutions, and various of these things holding together relatively effectively.

We saw that particularly through the sovereign debt crisis.

The interesting thing through the pandemic if you look at some of the Chinese propaganda, and information activities in Europe, was that it was the first time you started getting some of these directed critically at the EU and its institutions.

Particularly in Italy, and a couple of other locations, to sort of poke at some of the differences that were, were there.

I don't think the idea of a dissolution of the European Union, would be in the kind of ambit of how Xi or the Chinese government would think about this.

But certainly some level of internal discontent with the EU is something that they have attempted to use and play on, and that they can see as advantageous as we've seen in the way that they've handled various particularly populous parties in Europe, that have had this as a focus.

COMMISSIONER HELBERG: Have they aligned themselves with Russia at all, on trying to discredit European institutions within Europe through misinformation, through various types of activities?

And I can open this question to --
(Simultaneous speaking.)

MR. SMALL: Let me defer to Dr. Karásková in particular, on this question.

DR. KARÁSKOVÁ: Thank you.

Well, I will back Andrew Small on this argument because I work on Chinese propaganda and misinformation towards Europe, for the past seven years.

And what we have seen is really a change of the narratives, and also the change of channels.

So the change of narratives meaning that previously, China messaged basically spread positive energy.

China is a great country, Xi Jinping is a great leader, and so on. Over the past 3-4 years, what we do see is China reaching out towards far right, far left parties. And those fringe politicians on those kind of spectrums.

And the narrative is different. The narrative is do not trust your government. Do not trust NATO EU. Do not trust the membership of international, in international organizations.

So in this sense, what China has been doing is actually aligning pretty well with what Russia has been doing for decades within, within Europe.

So this is a change.

And one more thing regarding the Europe and Commission being on a forefront of some of the China initiatives, definitely.

But European Commission is also running into competency, competency challenge between itself and European Council where the Council sees securing a foreign policy as its own domain, while European Commission is more and more pushing towards that direction.

So some of the counter push coming from member states, is not necessarily aiming at what the European Commission is proposing on China, but on the fact that European Commission is usurping the power to actually talk about China in security realm.

COMMISSIONER HELBERG: Thank you.

COMMISSIONER MANN: Thank you.

Let me in my own questioning, return to a question I mentioned in my opening statement, and Dr. Stanzel referred to.

Which is how long will the close alignment that we now see between the United States and Europe, endure past the war in Ukraine?

This is obviously a very speculative question since we don't know when or how, or on what conditions, the war will end.

But is the possibility of cooperation on China dependent on the existing war in Ukraine?

DR. STANZEL: If I may?

COMMISSIONER MANN: Dr. Stanzel, yes.

DR. STANZEL: It's not, not dependent on the war in Ukraine because this unity on China policy began already in 2021.

And, it was based on the highly professional preparation of creating that kind of unity that had not existed to the same degree before.

But if you look at the first statements coming out of the G7 in 2021, then the NATO Summit 2021, and later when the president of the U.S. attended the EU Summit, they speak for, they speak with one voice.

And this is something that has been able to continue to uphold throughout the time since then. And obviously, it has been underpinned by the events in Ukraine.

But such they are the foundation of a very solid cooperation across the Atlantic, which is vulnerable, of course.

We have seen that in the past. And it takes work to build it, and it takes work to keep it. If you permit me, let me add something that came up in the question before, and the replies.

Because I'd really like to link the China question to the Russia and Europe question, and the fragmentation question.

I think it took some time for Beijing to understand what a gift the war in Ukraine was to them, in terms of the Europe policy.

Because they, at some point they realized whatever happens in Ukraine, they will win anyway.

If Russia wins, Putin will still be a worldwide outcast with most of the countries in the world. He will be dependent on Xi Jinping, and China.

If he loses, or turns up as the weaker side of the negotiations, he will also be needing Chinese help.

So in the end concerning Europe, Russia, which after all goes all the way to Belorussia, Russia is a bridge for China into the European Union, into Western Europe.

And I think if there is a perspective of supporting fragmentation of the European Union, or even dissolution of the EU, which I think is a goal they have not given up on, then this is facilitated enormously because of the war.

And the consequences whichever it may be, because of a weaker Russia.

COMMISSIONER MANN: Thank you.

Other witnesses?

MR. BARKIN: I'm happy to just--

COMMISSIONER MANN: Mr. Barkin, yes.

MR. BARKIN: Yes, thanks.

I think you asked about how long will the close alignment endure past the war in Ukraine.

And I think I agree with Volker Stanzel, that this is, the war, the end of the war in Ukraine is not, it's not necessarily going to affect EU-US cooperation on China.

I think I would say that we did see under the prior U.S. Administration, the birth of strategic autonomy.

But some people forget that the anti-coercion instrument that was recently finalized in Brussels, was born of the Trump Administration, rather than, rather than China.

I think that the focus of it has shifted in the intervening years.

We saw -- we saw the CAI (phonetic). We saw a great deal of resistance to U.S. pressure to exclude Huawei from 5G networks.

So, I do think that the U.S. Administration that is engaged, that is working, consulting with its allies in Europe, is, is important.

That does not mean that Europe's view of China will change under, if we have a change of administration in the U.S.

And it doesn't mean that having a very trans-Atlantic Administration like we have at the moment, isn't without it's bumps. You know, if we look at the IRA, AUKUS, and Afghanistan, for example.

But I do think that Europe, European leaders will have more of a tendency to hedge if, if they don't, if they don't have a partner in Washington that they feel they can, they can rely on.

COMMISSIONER MANN: Thanks.

All right, Commissioner Price?

COMMISSIONER PRICE: Good morning everyone, and thank you all for your excellent testimony today.

I have several questions, but I think I'm going to start with Mr. Barkin. And in your testimony this morning, you talked about, and your recommendations, I always find the recommendations so important.

You talk about overt public pressure on Europe to move China policy, and the possibility that could backfire. In your written testimony, you called it curb your enthusiasm.

Can you expand on that a little bit, perhaps with an example?

MR. BARKIN: Sure. I think the, I mean, it's a very good question. I think, you know, as I just laid out in my prior answer, we saw on issues like 5G.

I think the Trump Administration was very active in Europe in pushing European countries to exclude Huawei from their, from their 5G networks.

We all remember last minute trips to London by administration officials to convince the government there to, to reverse course.

I would say it was important for the U.S. Administration to raise this issue. I think they put it on the radar in Europe.

But I think the decisions over 5G became a bit poisoned by the approach that the Administration took, in the sense that it became a debate.

Not a debate about what is in European, Europe's security interests, in terms of what suppliers were in its 5G networks.

It became a question, are we going to, are we going to do what Donald Trump tells us, tells us to do.

So, I think I'm quite complimentary on the Biden Administration's approach. It's worked I think over time to consult with the Europeans.

It was in Europe before the October 7 export controls were announced. And, you know, there are some bumps in the road.

AUKUS, Afghanistan, et cetera, but I think administration, administration officials have gone out of their way to consult, and reach out.

And we have this proliferation of dialogues, the EU-US dialogue on China, the TTC, which met just a week or two ago in Sweden.

And, I think it's this dialogue which is going to push Europe and the U.S. closer together, rather than, rather than public pressure.

COMMISSIONER PRICE: Thank you. My next question, Dr. Stanzel, perhaps you can start. You made reference to the German National Security Policy that came out yesterday. The upcoming China policy.

I believe that the annual consultation might be coming up in the next weeks on China. Do you anticipate any big change, or, or change in thinking whatsoever? Or do you think that it's all been communicated in different ways already, and that we shouldn't expect much new to come out of them?

DR. STANZEL: Thank you, Commissioner Price.

Well, things that Noah Barkin described before, are coming to a head these days. Noah Barkin spoke about the differences of opinion between various parties in Germany. And first, they had to agree now on a national security strategy, which also contains a paragraph, some paragraphs on China.

That will be followed by a China strategy, but that will not come out before the annual consultations have taken place, which will take place on the 20th, that is next week, you're quite right, to prepare those with the Chinese who are reading the papers.

Who have read the national security strategy, and who have heard what ministers, especially our foreign ministers, have been saying about them. And they want to have clarification.

So that kind of what I just called clarification, is something that's going to happen inside Germany during, in the course of this week, the next, and the week after that. And I think we have a tendency that on the one hand, the, let's call it the G7 agreement, de-risking in a sense, is something that is solid basis for all parties to agree on. It's not that specific, however. And when you go, and once you go into the details, it gets, gets more and more difficult.

So, if our foreign minister yesterday said that she wants a secure, Germany to be so secure that people don't have to be afraid for the safety of their cell phones, nobody listens, nobody manipulates them, et cetera. And, that goes a long way in criticizing China.

On the other hand, you have the major coalition party, the Social Democratic Party, which is strongly influenced by business, especially via the trade unions.

And would like to go on as long as possible to keep a solid relation, economic relationship with China.

And thus, not to antagonize them, especially when the Chinese prime minister is coming to Germany.

So after that, the various parties will have to agree on that China strategy. And I can see a lot of controversies, and I cannot see how the outcome will be like.

COMMISSIONER PRICE: Thank you.

COMMISSIONER MANN: Thank you.

Commissioner Schriver?

COMMISSIONER SCHRIVER: Thank you, Mr. Chairman, and thank you to our witnesses.

We haven't talked a lot about security and military issues thus far, so a couple questions on that topic.

Mr. Barkin, you alluded to the fact that while there's interest in, growing interest in the security issues, we know there's some increase in presence, South China Sea presence, even Taiwan Strait transits.

But you implied there's a pretty hard limit there of what we might expect. So, I'm wondering if you could talk a little bit more about what that limit is, and why. Is it a capacity issue? Is it a divergence of views on security issues? Is it an expectation of division of labor?

And Mr. Small, nice to see you again. Want to take advantage of your expertise on NATO, and interests in Asia.

French Resistance notwithstanding, there may be a NATO Office in Japan. I'm wondering if you could give us some sense of what to expect.

The role of that office, and how that representation might facilitate greater cooperation with Asian allies and partners, and dealing with the China security issues overall.

Mr. Barkin first.

MR. BARKIN: Thank you for the question.

I think the first point I would make is that, and I think I touched on this in my testimony earlier.

That the awareness in Europe of the risks surrounding Taiwan, has increased significantly over the past year.

Especially since Russia's invasion of Ukraine, and of course also in the wake of China's military maneuvers that followed the meetings of Taiwan's president with the two house speakers, Pelosi and McCarthy.

That said, I think Europe is, has a war in its backyard. And, I think it's very much focused on the war in Ukraine.

There are capacity issues. I think we have seen Europe develop an Indo-Pacific strategy. There's a great deal of focus on engagement with countries in the Indo-Pacific.

A country like Germany sent a frigate through the South China Sea about a year ago. This would have been unheard of a few years before.

If you look at where leaders are traveling, Olaf Scholz, the German chancellor, has been to Japan three times in his one and a half years in office.

I think his predecessor in 16 years, was in Japan five times. He's been to India, South Korea.

So the engagement in the Indo-Pacific is increasing, but I think the idea that Europe could play a major military role is, is probably fanciful given its ability to project power.

There are countries like the U.K. and France, that have a bigger role in the region. But I think a military role is seen as unlikely.

Where there is a big discussion in Europe is about how it would respond economically. And I think here, this is a discussion which is going on but it is, I think the European approach is to remain ambiguous and not, not talk about this too loudly.

I think there's a lot of concern about provoking a crisis by talking about these issues too loudly.

So, I will leave it there.

MR. SMALL: Thank you, Commissioner Schriver.

On the NATO question, and particularly NATO the Tokyo office, I think there is now just an understanding, particularly as a result of what the engagements with partners in the region have been through the war in Ukraine, of the more intertwined nature of security threats in the Indo-Pacific, and the Atlantic theaters.

I think we've really seen that embedded in NATO in the last few years, in a way whether it was a lot of tentativeness at the beginning, as I'm sure you will recall.

But I think institution wide, there's just now a lot more creative energy being deployed, to think through how partnerships in these two theaters can be stitched together more actively.

I think the Vilnius Summit is understood to be a kind of marker point for that, that we're going into another phase with the AP4, even if the countries don't want to be called the AP4, but just for shorthand purposes, the AP4, in terms of kind of thinking through what the next generation of these partnerships might, might look like.

I think there are certainly areas on cyber, on hybrid threats, on simply sharing assessments in different ways, not least on China-Russia developments.

How contingencies in one theater might affect the other. I think it's been difficult to have some of the contingency discussions in NATO so far specifically on, on Taiwan.

But I think you know, we've seen I think it's already public, that there have been you know, at least some informal discussion on Taiwan-related questions there, as well.

On capabilities support on military technologies, I think there's a lot of different strands on this, but we're now just going into the next stage of kind of thinking these through with partners.

So, I expect particularly with the leaders there in Vilnius, this will be a kind of first starting point on, on that.

These partnerships of course moved, that were originally constructed around Afghanistan, and pulling partners from the region into more cooperation on that.

We've moved into a very different phase on that, but I think we still only have the initial steps of kind of really developing that at a NATO level, beyond some of the other wider questions that you discussed with Noah.

COMMISSIONER MANN: Thank you.

Commissioner Wessel.

COMMISSIONER WESSEL: Thank you all. Let me add my thanks to my colleagues for all the preparation for your being here today.

I'm confused, to be very honest. And Mr. Small, you used the term convergence as others did.

I don't know convergence on what, to be very honest. We had a broad range of discussions with European interlocutors recently in Berlin, and Brussels. Government, private sector, et cetera.

And again, I came away confused as to what the European policy really is. It appears that maybe we're at a reset where there is somewhat increased concern about China, but what happens next is very much in question.

The FT reported yesterday as you probably saw, that for the Horizon Europe Program, the EU is given 15 percent of the funds to Huawei for participation in AI, 6G, and other programs.

We had discussions across the group, across the countries, about LOGINK, which is a transportation/logistics infrastructure approach.

And somewhat surprised that there was almost no knowledge that Antwerp, Rotterdam, Hamburg, and other ports are using that platform.

You know, we're waiting to see what happens on outbound investment both here in the U.S., and in Europe.

We heard that BASF is de-risking, as other companies are, but BASF's approach on de-risking is to probably double its investment in China, followed by Volkswagen, BMW, and Mercedes.

Whether that's to be there to sell there, or you know, potentially an export platform back to the EU, we don't know.

So, convergence on what? I mean, what do you expect forward? It feels to me like we've reset.

We now have our own Administration deeply engaged, or trying to engage the Chinese to open up lines of communication.

Have we set a new stasis? Are we at a new level, or are you, or do you expect a continued planning and preparation for the challenges we face?

MR. SMALL: Thank you for that question, Commissioner Wessel.

I think we are still headed towards convergence, but we're at the most intense phase particularly going into this European Council meeting later this month, of the debate of some very high stakes issues now.

I mean, just to take three cases that have already come up, one is the one that you spoke about most expansively, the de-risking question.

This is a paradigm shift, I think in the end, in all sorts of ways in Europe to reconceptualize the relationship around the idea of risk and economic security.

We are going to get the minimal version I expect, in the first cut at this in terms of what this amounts to.

We may get some more in outbound investment screening. We will make some progress on export controls. We already have, of course, on a bilateral basis on semiconductors. I think that will go further.

I think there's an understanding on, on critical technology exports. And I think we're getting to some things like critical war materials.

But that's the minimum definition. I think it's as important that you're getting a shift in the entire understanding of how, what this relationship needs to look like and therefore, where we will go next on this.

Because everything that you've identified, and I can go through an even longer list, looking at European digital infrastructure and the huge deficiencies that we still have. Huawei's presence not just in 5G, but in other sectors.

I think it's quite clear that there are a huge number of gaps that still need to be addressed on this. And, that we're only in the early stages of being able to deal with them.

I think nonetheless, the convergence on the basic analysis of what we were seeing with China, and so that's just the de-risking piece.

If we take the China-Russia piece, if we take the Taiwan question, to take I think a couple of the other areas that are really subjective to significant debate at the moment.

I think for instance, there is agreement on the China-Russia relationship right now, that it is heading in an extremely problematic direction for Europe.

That it translates into a different security threat for Europe. But the how to handle China on this question, there are still some internal differences in Europe on how best to conduct this.

Whether it is still worth putting anything on the table with China as a means of creating some gaps, which I think is completely misplaced, or whether there simply need to be deeper preparations for a long term convergence so when China-Russia, between the two sides that will have long-term detrimental and implications for European security interests.

There's still debates on that question. And on Taiwan as has already come up, I think there's a heightened understanding of the fact that Europe will have a role to play on this.

But there's still significant debates under way on for instance, how much preemptive signaling there should be on sanctions, and some of these questions.

Nonetheless, I think where we are on some of those discussions now versus a couple of years earlier, is a significantly different place.

And there's a lot more that's going on at the lower levels of coordination on a whole series of questions on China economic issues, on information activities, on threats to democracy, that Dr. Karásková works on particularly and closely.

And, on a whole list of less visible areas where I think we are just getting closer identification between the two sides.

But I think it's going to be a wrench to move on some of these directions. As your questions hint at, there is resistance, there is resistance from companies.

There is a real battle underway to get this into the place in Europe that certain people want to see it.

What was laid out by the president of the European Commission, I think was at the edge of that consensus.

And we see as we've talked about in other testimony, the fact that there's still kind of rear guard action to kind of claw this back from where the Commission might want to get to.

So I think this is as Mr. Barkin outlined in his testimony, there are still a lot of voices on this. There's still a lot of debate.

But it reflects that these are really high-stakes issues for Europe's economic and security future, where nonetheless, I think we are, and I think we will see at the end of June, some decisions reached.

We're in decision moment on a lot of this. And if you talk to European heads of government on this right now, this has been in discussion, and thinking, and conceptualization phase on some of these big issues.

And, now we're in the kind of crunch phase on actually reaching some decisions on where some of these big questions that you identified, really need to get to.

But I think we're doing so in an environment that's much more convergent trans-Atlantically, and even within Europe than we were a couple of years ago.

COMMISSIONER WESSEL: Thank you.

COMMISSIONER MANN: Thank you.

Vice Chairman Wong.

VICE CHAIRMAN WONG: Thank you.

Mr. Barkin, one of your recommendations talks about the U.S. interest in getting Europe to take on a bigger security role, and kind of a wider, more global security concept. And, I think that's a fine recommendation. But it implies that Europe should enhance its defense spending.

And I guess my question is whether you see moves in various capitals, to be not just say the words of an enhanced defense spending, but actually making the hard legislative moves to, to put those resources to bear.

And I want to add a little commentary here. Yes, Europe can increase defense spending in kind of a unified concept with the United States.

But you also mentioned in your testimony, thoughts that Europe has concerns about U.S. commitment, and wants to hedge. And one way to hedge is self-help.

So whether it's in a unifying concept or there are worries on, or Europe has to hedge, it would seem to me either way, they should be increasing defense spending.

So, I'm curious to see if you see signs of that.

MR. BARKIN: Sure, that's a very good question.

I think we have seen a major shift here. And largely due to Russia's invasion of Ukraine.

In February of last year, the German chancellor got up in the German parliament and made a speech in which he broke three, I would say three German taboos. Arming Ukraine, cutting off, agreeing to phase out Russian energy, and investing \$100 billion Euros in the German military.

This, he described this as a *Zeitenwende*, a sort of watershed moment. And, I don't think it should be underestimated what this shift meant for Germany.

Now if we look at the implementation, that, there have been some bumps in the road. But we have a new defense minister in Germany, who seems very intent to implement this.

We got in the national security strategy a commitment, a reiteration of the commitment of Germany to spend an average of 2 percent of its GDP on defense. So, meet the NATO goals that were set out in Wales in 2014.

This is not going to be a straight line, I think. I think Europe needs to, Europe is still heavily reliant on U.S. military gear.

We're seeing that in Ukraine. We see Germany ordering F35s. So this is about, this is a long-term process.

Europe has to also build up a defense industry, which has been sort of worn down by decades of under investment.

So, I think we're moving in the right direction. But you know, the jury is still out on whether Europe will get there.

And, I don't think Europe is anywhere close to being able to be completely independent militarily. That's not going to be the case for, for many years.

VICE CHAIRMAN WONG: Switching gears, we've heard a lot about the internal politics of Germany, and how the various parties have at least the trend being that they're being more clear-eyed about China into a competitive strategy.

I'm curious whether that's the case in France, Mr. Barkin. I know you have been based in Paris, and you watch French politics.

You know, particularly in light of Macron's statements regarding Taiwan, and stepping away at least, or creating some space between the United States and France, on China.

Is that the overall view of the various political parties in France, or because of Macron's relatively low approval ratings, is he kind of an outlier?

MR. BARKIN: Well, I don't think it's necessarily his low approval ratings. I think Macron has a history of statements like this.

He called NATO brain dead a few years ago. And he also you know, he tried his best to charm other, other leaders, including Donald Trump and Vladimir Putin, not so successful there. I think the important thing coming out of his trip is that a lot of the messages that he sent, particularly his message on Taiwan, was seen as problematic in the European capitals.

I think it was not only what he said, but how he said it, where he said it. And, I would also note that France is the country in Europe that plays the most important role in Indo-Pacific security.

It sent a frigate through the Taiwan Strait days after Macron's visit, over the objections of Beijing.

And I just read today, that France is pushing for tariffs against Chinese cars, electric vehicles.

So, it's I think you have to look at the broader message coming out of, coming out of Paris. Look a bit more at what they do, than what they say.

I think there was some criticism of Macron within the French system, because I think a lot of people thought that some of the messages he sent while he was in Beijing, weren't necessarily in line with French policy.

But France is the proponent of strategic autonomy. In Europe, this is not something that arose in the last few years.

This is a tradition in the post-war era starting with Charles de Gaulle. And, I don't think this is going to disappear. I think France's vision is a strong Europe that isn't too dependent on China, or the U.S.

So I think what we're always going to get, we're going to get messages along these lines coming out of senior French politicians.

COMMISSIONER MANN: Thank you.

Chairman Bartholomew, did you have questions at this point?

CHAIRMAN BARTHOLOMEW: I do, thank you very much. Thank you to our witnesses for interesting testimony, and very interesting discussion and responses to questions. Before I have my question, I just simply want to acknowledge the work, well, the fortitude of the Czech Republic and Lithuania, for their relationship with Taiwan, which has come of course at some cost of economic coercion by China.

So, I think that they are a very strong model and appreciate what they've done. I have a bigger for your expertise on China, for all of you. You know, we just presume now that de-risking is the phrase that's being done, that Beijing is also de-risking. But how does that, the dual circulation strategy certainly looks like it's decoupling, not de-risking.

So are we all the running the risk that we're heading down on path, and Beijing is still on another path, and we are pretending that they are going in the same direction as us?

That's my general question. My more specific question is frankly, to all of you, but Mr. Small, is there any line which the Russians would cost that, would cross that the cost would be too great?

Ambassador Stanzel, you mentioned you know, that basically China wins in this relationship, whether Russia wins or Russia loses.

But are there things short of I suppose, a nuclear explosion? And I note that particularly because the news broke this morning that the Russians have cut off access to the radiation sensors at the ZNPP, which certainly should be troublesome to people who've had to live through what was going on with Chernobyl, and everything.

So I guess again, so there's the general China question, and then there's the more specific China-Russia.

Are they just in for a dime, in for a dollar and it doesn't matter what the Russians do?

For any of you.

MR. SMALL: Thank you, Chairman Bartholomew.

Since you've directed a bit of the China-Russia question towards me, I'll jump on that. I don't see lines that Russia crosses, that result in a different approach on China's part.

And that includes the most obvious major area of concern, which is the question of nuclear threats, and use of nuclear weapons.

I think this is an area in which China has communicated some of its concerns, it's done so publicly. There's at least some indication that it's done so privately.

The question is what would this translate into, and does China actually believe that there's anything consequential that it can do?

The line that one tends to get from the Chinese side is yes, this would be a matter of concern. Yes, in certain circumstances you know, this could lead us to vote in certain ways in the UN Security Council, or something like this.

But in terms of that translating it into a rift with Russia, or in terms, in the circumstances in which the nuclear weapons might be considered for use on the Russian side, are these circumstances in which anything that China says or does, would make a difference?

The view that one tends to get on the Chinese side in those circumstances, is no, that they wouldn't.

So I think when you're, there are things of course that Russia could do in the bilateral relationship with China that would be problematic.

But I think your question is hinting at steps that Russia could take in the war, or otherwise.

And I would even add on the threat of nuclear weapons, that there are those on the Chinese side who have followed this with close attention and interest, and signaled that this may be something that they can derive some lessons from.

And I think it's been quite important at the moment, what the signaling is to, to Russia on this with respect to the lessons that China derives.

Because I think there are certainly those on the Chinese side and who have talked about this openly, as something where they may have to even you know, as we've seen some of the rethinking on language on no first use, but also the question of threats in certain circumstances, as well.

So I think the assessment on the Chinese side is that this is a deep, long-standing relationship that they're committed to, and they're willing to bear some costs on. And that that doesn't change as a result of Russia's behavior.

Really very briefly on the de-risking and decoupling. I think dual-circulation is also in part, an effort to embed risk on the part of others.

I think that's absolutely what we're seeing with certain European companies. This goes back I think, to and the question that Commissioner Wessel asked, as well.

I think there's an attempt with specific companies, to deepen their involvement in the Chinese market. And to go through selective decoupling.

But in certain cases to build those dependencies in certain areas, to be able to use them as leverage.

So I don't think it's a wholesale decoupling. I think it's rather an extremely targeted one that China's undertaking.

CHAIRMAN BARTHOLOMEW: Excellent, any --
(Simultaneous speaking.)

DR. STANZEL: Maybe I can come in on this one?

CHAIRMAN BARTHOLOMEW: Yes.

DR. STANZEL: Please. Is it okay?

Just on the Chinese decoupling. Xi Jinping just gave a speech in Inner Mongolia, where he emphasized very strongly the need for domestic circulation.

And, it seemed to me it's the consequence he drew out of the economic situation that China is in.

China has to do more to promote domestic consumption. So that ties in very nicely with this reconcept of dual circulation, now focusing on domestic circulation.

And if China focuses much more on what it does with the international, its international partners, then it risks losing its own population that rather presently, rather saves money instead of spending it. That doesn't find jobs and to a high degree.

So, what it needs to do is to do something to satisfy the needs of his own population. And I think for him the way he thinks, it is quite natural to have a country, a state, a government that directs the people, directs the people to consume more, to buy more Chinese stuff.

And thus, at the same time, fulfill his dream of getting more and more independent of involvement with abroad, other countries, as long as they're not ones that he needs for getting raw materials, or whatever.

So I think even though China's in dire straits presently, this is something that plays in nicely with Xi Jinping's idea of how his country must be run, which is more isolated country than it is, than it used to be in the past.

So that is something for which the term decoupling actually, it fits quite well, even though he means it in a very different way.

CHAIRMAN BARTHOLOMEW: Thank you. We're over our time.

COMMISSIONER MANN: Mr. Small, could I just ask you to explain again, the lesson you think China draws from Russia, and the threat of nuclear weapons?

MR. SMALL: Thank you, Commissioner.

I think this is being debated. We see these debates underway on the Chinese side. What's been publicly signaled has been that the threat of nuclear weapons use, may have helped to deter certain deeper levels of Western military involvement.

I think this has been the real question in terms of the signaling on this issue, to make clear that in practice, this, the certain areas of restraint shown in terms of NATO involvement, in terms of U.S. involvement, was not related to nuclear weapons threats. And, the lessons that China therefore derives from that.

Because we have seen openly talked about the, from certain Chinese commentators, the idea that if this is the case, then it may be something that China should, should think about harder in terms of how it would, you know, how to approach these questions.

But it may have come to those conclusions on the utility of this anyway. But I think this has been kind of highlighted, particularly in some of the commentary on the Chinese side as a possible lesson to internalize on this. Vis-a-vis Taiwan, of course.

COMMISSIONER MANN: Thanks.

We have, we do not have time for another round of questions, but we have a few minutes for further questions.

Does anyone? No? All right, then thank you, thank you especially to the witnesses.

Thank you for everyone, and this part of the hearing is over.

Thanks.

Oh, when are we back? We are, we will be back at 11:35.

(Whereupon, the above-entitled matter went off the record at 11:20 a.m. and resumed at 11:36 a.m.)

PANEL II INTRODUCTION BY COMMISSIONER AARON FRIEDBERG

COMMISSIONER FRIEDBERG: We'll examine European approaches to dealing with China in the economic and technological domains and compare this to the U.S. approach and explore the space for transatlantic cooperation.

We'll start with Dr. Alicia García-Herrero, who is appearing virtually. Dr. García-Herrero is the Chief Economist for the Asia Pacific at Natixis Corporate Investment and Banking, a senior fellow at the European think tank Bruegel, and a member of the Council of Advisors on Economic Affairs to the Spanish Government. And she'll provide an overview of Europe's economic ties to China.

Next, we'll hear from Dr. Lindsay Gorman, also appearing virtually, who's a senior fellow and the Head of Technology and Geopolitics Team for the Alliance for Securing Democracy at the German Marshall Fund of the United States. And Dr. Gorman will discuss Europe's approaches to China regarding critical and emerging technologies.

And then we'll hear from Tim Rühlig, a senior research fellow at the German Council on Foreign Affairs. Dr. Rühlig will discuss Europe's approach to China, China's increasing importance in technical standardization.

Thank you all very much for your testimony. I'd like to remind all of our witnesses to please keep their remarks to seven minutes in order to preserve time for questions and answers. And, Dr. García-Herrero, we'll begin with you.

OPENING STATEMENT OF ALICIA GARCÍA-HERRERO, CHIEF ECONOMIST FOR ASIA PACIFIC, NATIXIS

DR. GARCÍA-HERRERO: Thank you very much for this opportunity. I hope you can hear me well. And if that's the case, I'll start right away with my testimony, which has been handed over to you, this -- basically a summary of the economic reasons why Europe, to my mind, is although in a roller coaster mode, but still basically moving towards distancing itself from China economically with a lot of, however, strategic dependence. So that kind of asymmetry of relations is what I want to start with.

Right after that, I'll talk about Europe's strategy on China, which is three-pronged, cooperation, competition, and rivalry, and what it really means. And then, finally, I'll offer my policy advice to what, in my view, the U.S. and Europe could do together to confront this increasingly asymmetric dependence on China.

On that note, if I start with economic factors behind the U.S. shift -- by shift, I mean moving away from a much more cooperative approach to China. There's very many reasons that I've actually outlined, but I want to start by the growing trade deficit, which is basically explained by China's increasing competition with sectors that Europe is best at, such as autos.

But on the import side, by now, even Germany, which is exceptionally, really -- but the whole of Europe, in many cases, imports the most from China than any other country in the world, even any other EU country, which is quite impressive.

The other issue is that European companies are no longer benefiting as much from the Chinese market. This is, first, because China's imports are growing negatively, well below global trade trends, but especially with Europe. So, actually, Chinese imports from Europe are falling faster than with the rest of the world.

As regards to investment, Europe is investing less than the rest of the world in Europe now, and China is also investing less in Europe than it used to. So this is kind of the idea of, in a way, de-risking before we even start talking about de-risking.

The main issue, though, is that strategic dependence that I mentioned. The European Commission has done quite a lot of work on, what are the main items of strategic dependency? You can see from the table I've provided, from monitors to automatic processing -- all of that, in a way, is, yes, important, but it can be substituted.

The most important strategic dependence for Europe from the Commission's point of view is green energy. So we have 89 percent of solar panels imported from China, 82 of lithium ion batteries, 64 of, actually, something that Europe used to export to the whole world, which is wind turbines.

So you can see that by now, we are increasingly dependent on China, and this has prompted a change in attitude toward China. My testimony actually goes also into security and political issues that are pushing us i.e., Europe somewhat away from China, but I won't have time to go through all of the critical infrastructure that by now is actually in Chinese hands from ports I reported in my testimony to 5G, et cetera.

But because I do want to have time to actually talk about potential cooperation, I'll move fast into how we've moved from basically negotiation, i.e., cooperation, which was the comprehensive agreement on investment that Europe signed with China on the 30th of December 2022, to a sudden move away from that because of reciprocal sanctions, which actually were coming from the use -- starting from Europe, the use of autonomous measures in that regard was targeted sanctions on Xinjiang officials.

And from there, we've seen additional -- let's call it sticks rather than carrots, i.e., many more autonomous measures from Europe, whether it's anti-coercion, et cetera. At this point in time, we are already at the point of de-risking. You know, this is a concept that the European Commission President, von der Leyen, outlined before her trip, official trip to China, with President Macron.

But the concept of de-risking -- and this is important for us to understand -- is very targeted in Europe. It's very, very focused on what I mentioned before to be the largest problem for Europe at the moment, which is this huge dependence on China for the energy transition. And that's basically the core of this de-risking strategy, it is a very economic targeted de-risking strategy.

Now, even if it looks targeted, it is actually very difficult to achieve for Europe. And what I would like to propose in my policy and in the policy options in my testimony is coordinated specialization and trade agreements.

So the idea of coordinated specialization goes counter the idea of, basically, unilateral de-risking, which is where I think the U.S. and Europe are moving at the moment. How to achieve coordinated specialization -- so, basically, there is four lines of action: obviously, extraction of critical minerals, refining, innovation, and production/manufacturing.

When I talk about coordinated specialization in my proposal, I don't mean to argue that it should only be Europe and the U.S. to start, because the manufacturing would be extremely expensive given differences in costs with China. And I think the idea would be to find an ecosystem to basically organize these four actions together in a way that we do not compete with each other.

I don't think there's any other way to do this given the massive dependence already that the world has on China. And I would even argue that this is not only good for Europe and the U.S.; it's actually good for the world because it would be, basically, a spare wheel, a second option for the world's decarbonization, which at the moment is controlled by China.

And I think I have three seconds left to say thank you to everybody.

**PREPARED STATEMENT OF ALICIA GARCÍA-HERRERO, CHIEF
ECONOMIST FOR ASIA PACIFIC, NATIXIS**

China-EU roller-coaster relations:
Where do we stand and what to do?

Alicia García Herrero
Senior Research Fellow at Bruegel

1. Brief history of Europe's shifting relations with China

After a long period of engagement since China entered the World Trade Organization (WTO) in 2001, its ties with the European Union (EU) took a distinct turn in March 2019 when the European Union, in its “EU-China Strategic Outlook”, moved to a three-pronged position on China, namely that of partner, competitor and systemic rival.¹ This was seen as quite a drastic move from a past dominated by engagement and interdependence. A good example of this endeavour is the EU-China 2020 Strategic Agenda for Cooperation, initiated in 2013, and the start of negotiations for a bilateral investment agreement in the same year, which was concluded in December 2020 under the new name of the Comprehensive Agreement on Investment (CAI) but never ratified for reasons which will be explored later.

The question to ask ourselves is how to explain the EU's sudden move from engagement to a much more complex relation with China.

2. Reasons behind the shift

Some analysts of EU-China relations, especially those in China, argue that the EU is simply following the US when deciding on its bilateral relations with China. This, in my view, misses two important points: firstly, the rapidly deteriorating economic relations between the EU and China, at least from the EU's perspective; and secondly, key political events which have marked relations during the last few years. The most obvious one is Russia's invasion of Ukraine, but also reciprocal sanctions, as will be explained.

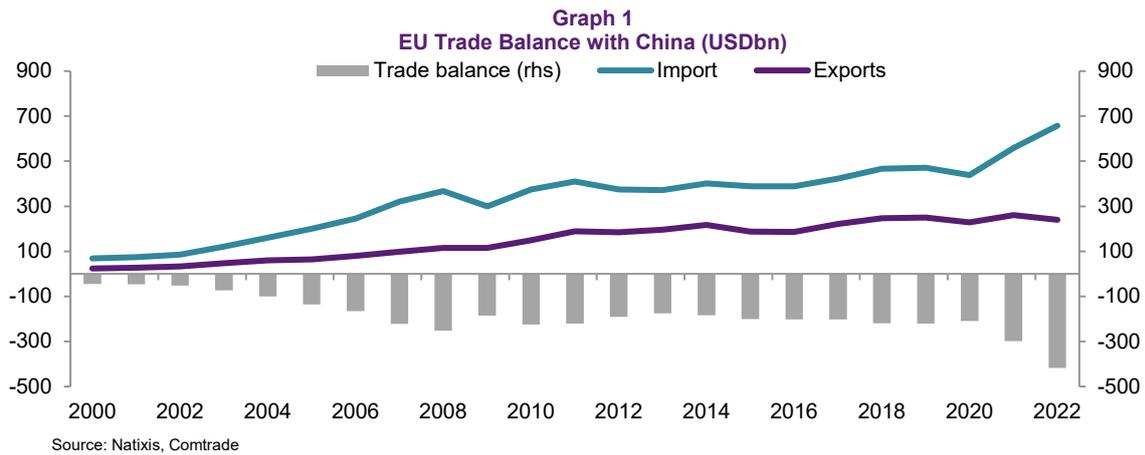
2.1 Economic factors behind the EU's shift

EU member states have benefitted very differently from China's economic rise, with Germany having long been the largest beneficiary. Such benefits, though, have started to wane, not only for the EU as a whole, but also for individual member states.

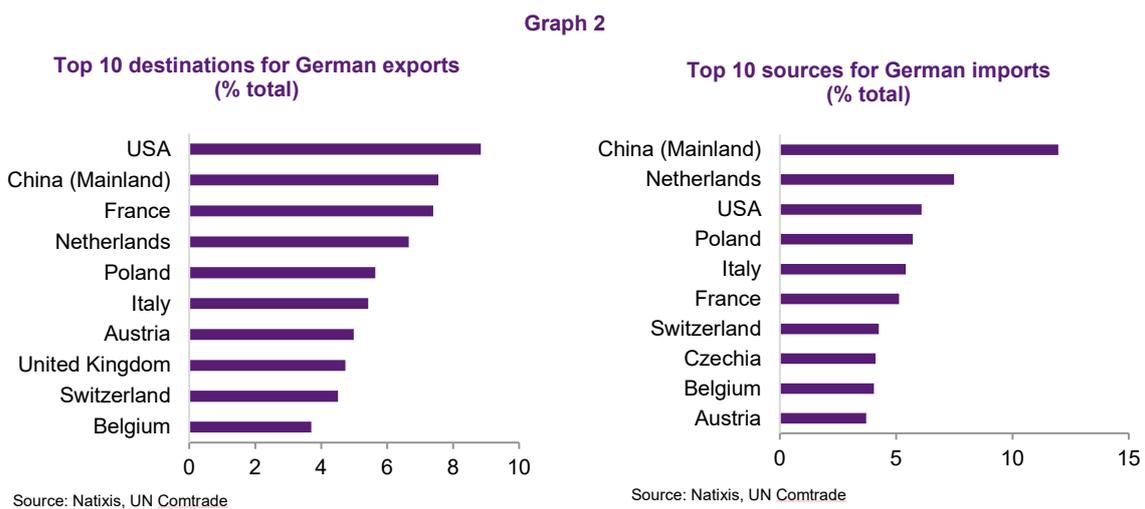
¹ The EU-China strategic outlook (The EU Commission and the High-level Representative Office, 2019), <https://commission.europa.eu/system/files/2019-03/communication-eu-china-a-strategic-outlook.pdf>

2.1.1 Increasingly unfavourable trade balance

The EU has long enjoyed rather balanced trade with China but, since the start of the pandemic, the trade deficit has ballooned to \$418bn in 2022 from a rather balanced position in the early 2000s (Graph 1). The situation is unlikely to revert given the EU’s heavy reliance on Chinese imports for its green energy transition, which has only accelerated since Russia’s invasion of Ukraine in February 2022.



Germany has also gone through a deterioration of its bilateral trade relations, with a large deficit in 2022. Furthermore, China has become the largest trading partner for Germany on the import side while the US remains Germany’s largest export market (Graph 2).



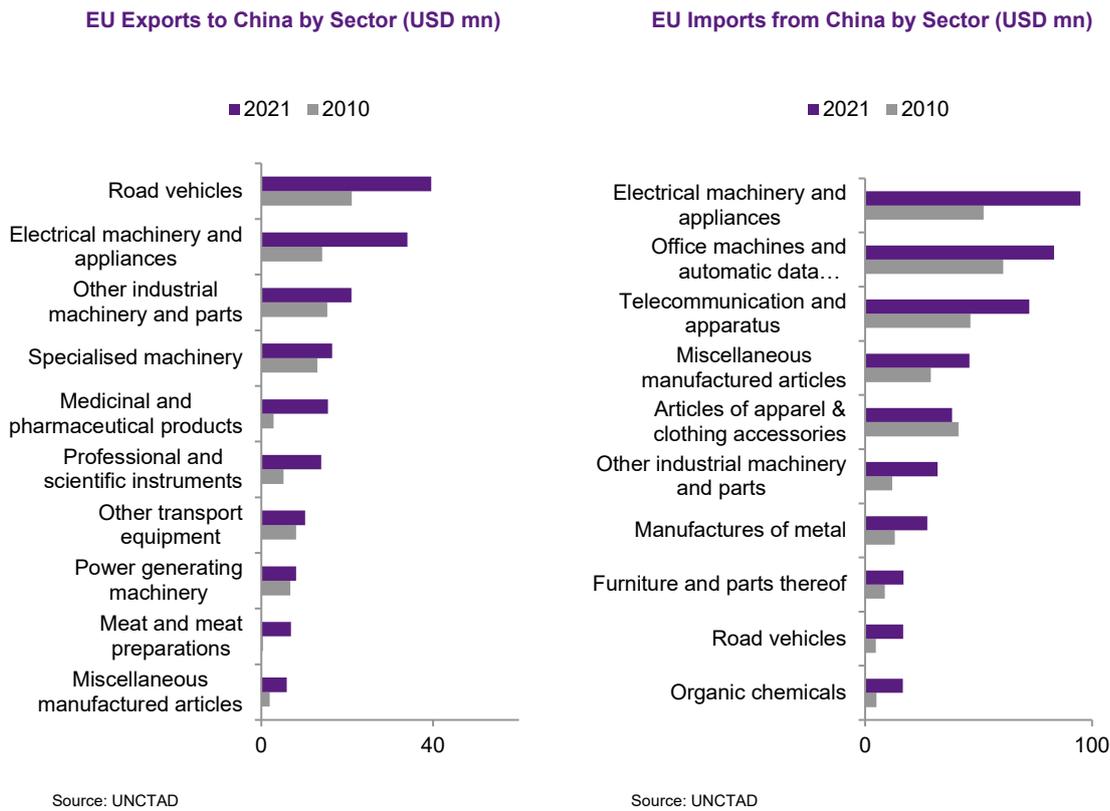
2.1.2 China’s shrinking market for European exporters

The EU as a whole, as the largest export engine in the world, has always held high expectations for China’s market. China became increasingly appealing with the surge of imports following the massive stimulus program introduced during the global financial crisis. However, the situation has changed quite drastically as imports have remained stagnant since the start of the pandemic and actually shrunk in 2023, notwithstanding China’s reopening. In fact, China’s imports are now growing at a slower rate than global trade, which is difficult to explain for an economy which is growing much faster than last year. As if this were not enough, Chinese imports from the EU, including Germany, have done worse than the global average. (Graph 3)



The main reason for the relatively poor performance of EU exports to China is related to China’s rapid transformation in terms of industrial capacity, which has allowed the country to move up the ladder and compete with Germany in a larger number of sectors (Graph 4). Such a shift may be partially due to market forces and innovation but also industrial policy, such as Made in China 2025, promoting self-sufficiency, with targets for localization of production.

Graph 4



2.1.3 EU strategic dependencies for sourcing

The EU’s high dependence on China for critically important products became apparent during the pandemic, especially for pharmaceuticals and protective equipment. In fact, recent work conducted by the EU Commission points to a large number of critical dependencies for the EU.^{1,2} More specifically, looking into EU imports for critical infrastructure including energy, telecommunications, healthcare, agriculture, and IT, we find that some of the key imports for such sectors are dominated by China.

Below is a table with a cutoff point at 40% of total EU imports for key components or products that go into critical infrastructure. It is hard to judge to what extent these dependencies are risky and how important each product category is, but it offers a sense of where the EU stands with general critical dependencies beyond the work carried out by the Commission.

Table 1. EU’s dependency on imports from China by product

Product category	Dependency on China for imports (as % of total)	Import value 2022 (EUR)
Monitors and projectors	74%	€8.8bn
Automatic processing machines and units thereof	73%	€48bn
Floating docks, submersible platforms, light vessels (port equipment)	65%	€360mn

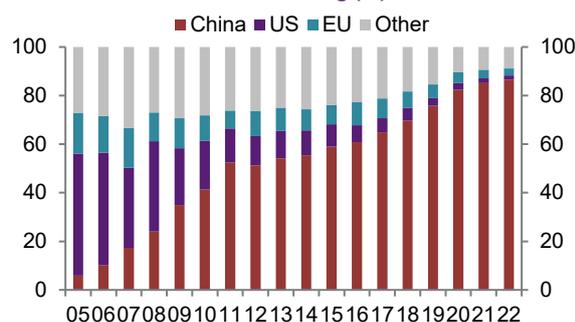
Electrical apparatus for line telephony (mainly used in offices)	63%	€52.5bn
Electric transformers, static converters, and inductors	63%	€14bn
Generators	58%	€1.2bn
Forklifts and work trucks	54%	€930mn
Electrical machines and apparatus	52%	€3bn
Sirens and alarms	51%	€1.9bn
AC generators (used in hydro, wind, NG power plants, etc.)	49%	€180mn
Harvesting, threshing, and other agricultural machinery	44%	€1.3bn
CCTV equipment	44%	€2.4bn
Medical, surgical, and dental furniture	41%	€207mn
Air or vacuum pumps, gas compressors and fans (industrial)	40%	€3.6bn
Agricultural machinery for soil preparation	40%	€329mn

Source: Eurostat, Bruegel

The EU's economic dependence on China has become even more apparent with the advent of the green energy transition, given its increasingly dominant position in the manufacture of green energy products such as solar photovoltaic (PV) panels, representing 87% of global production and supplying 89% of total EU imports in 2021, in a market that used to be dominated by the US and Europe before 2008. (Graphs 5 and 6).

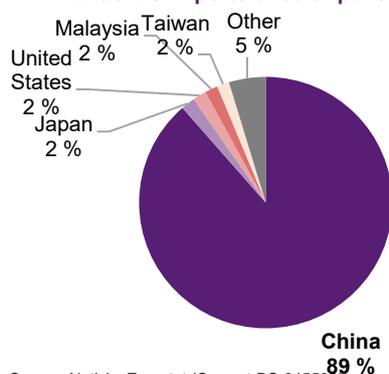
Moving to batteries for electric vehicles (EVs), China controls more than 60% of global manufacturing of lithium-ion batteries (Graph 7), but the concentration of EU imports of such batteries coming from China is even higher at 82% of total imports (Graph 8). This is striking given the EU's long-term dominance in the auto sector. In the same vein, the EU long dominated the production of wind turbines, but China has gained market share in this sector too and is the global leader since the start of the pandemic (Graph 9). Furthermore, EU imports of wind turbines from China reached 64% of total imports in 2021 (Graph 10).

Graph 5
Share in Solar Panels All Components Manufacturing (%)



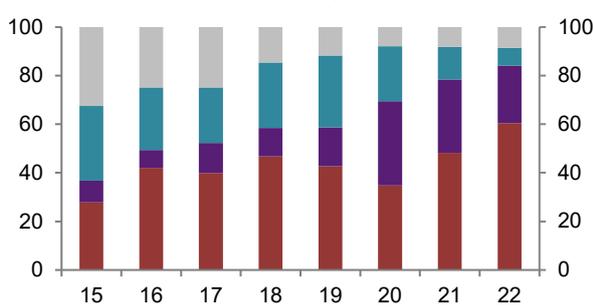
Source: Natixis, BNEF

Graph 6
Extra-EU imports of solar panels, 2021 (%)



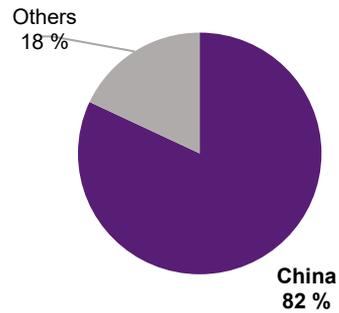
Source: Natixis, Eurostat (Comext DS-645593)

Graph 7
Market Share of Lithium-ion Battery for Electric Vehicles by Country (%)



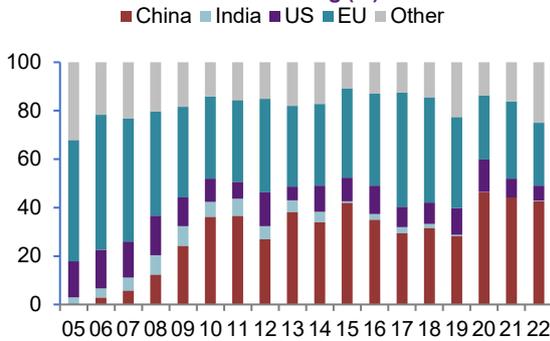
N.B. Included top 10 players for each year.
Source: Natixis, SNE Research

Graph 8
Extra-EU imports of lithium ion batteries, 2021 (%)



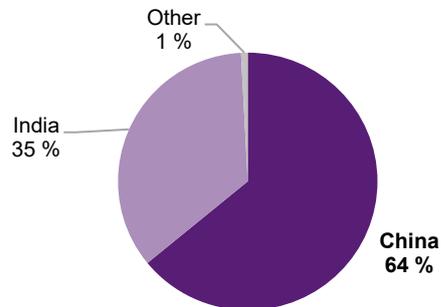
Source: Eurostat

Graph 9
Share in Global Wind Turbine Manufacturing (%)



Source: Natixis, BNEF

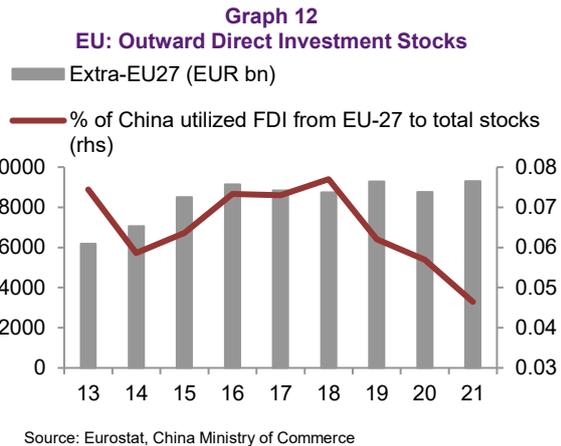
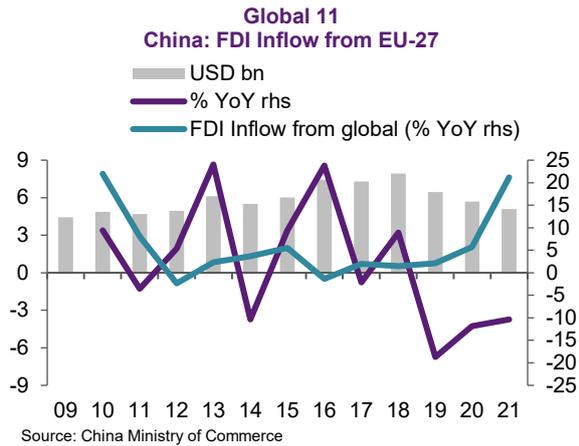
Graph 10
Extra-EU imports of wind turbines, 2021 (%)



Source: Natixis, Eurostat

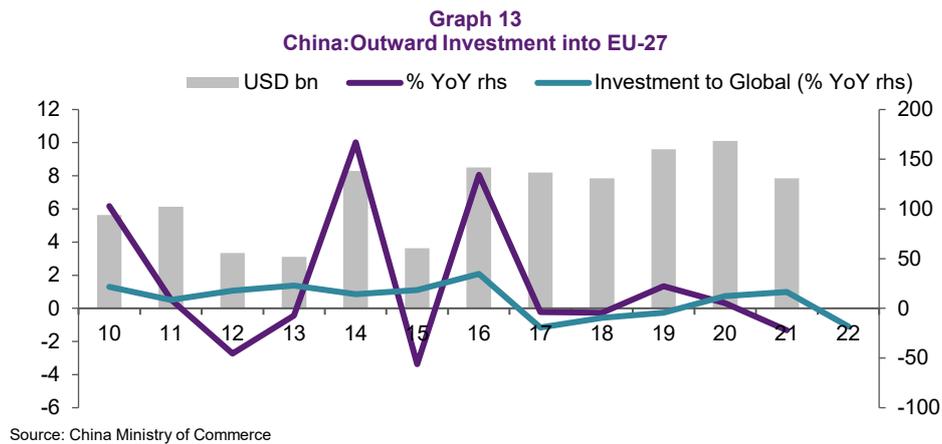
2.1.4 EU FDI into China is decelerating

European foreign direct investment (FDI) into China has suffered from three years of zero-Covid policies as well as a much tighter regulatory environment, especially as far as data localization and national security are concerned. In fact, since 2019, global FDI into China has been growing faster than that of the EU (Graph 11), which can be interpreted as the EU being increasingly cautious about its FDI into the Mainland. The share of EU outward FDI into the Mainland has been decreasing over time from close to 8% of the total stock in 2018 to 4.5% in 2021.



2.1.5 China's outbound FDI is decreasing globally

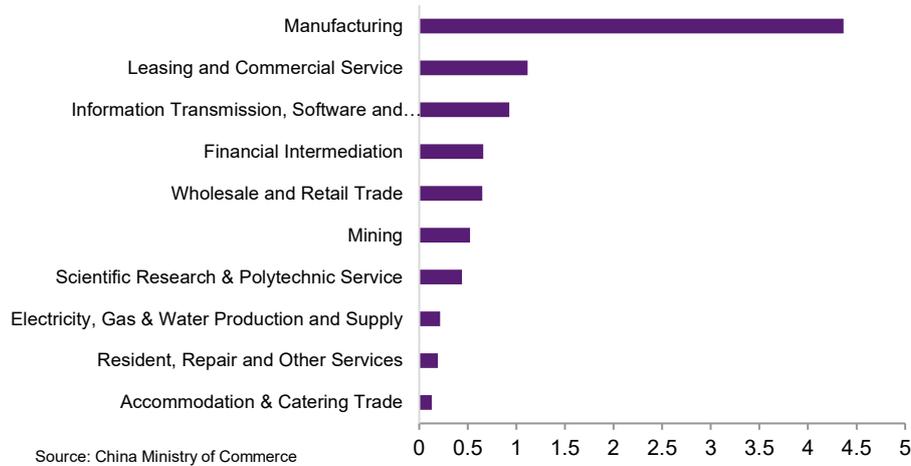
China's outbound FDI has been stagnant, or even decreasing, since 2017. On the contrary, China's outbound FDI into the EU remained strong until 2020 but plummeted in 2021 (Graph 13), with the trend continuing in 2022 according to a report by Rhodium.²



Another important point to note is that China's FDI into the EU has become much more targeted towards the manufacturing sector, a longstanding key comparative advantage for the EU (Graph 14).

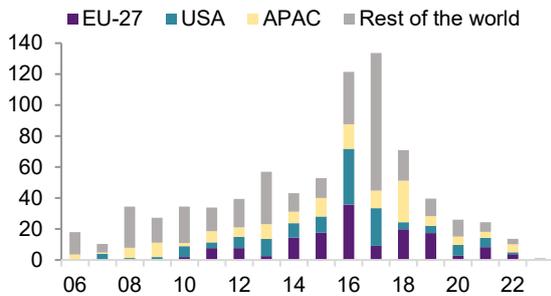
² <https://rhg.com/research/chinese-fdi-in-europe-2022-update/>

Graph 14
China Outbound Investment into EU:
Top 10 Sectors (2017-2021 average, USDbn)



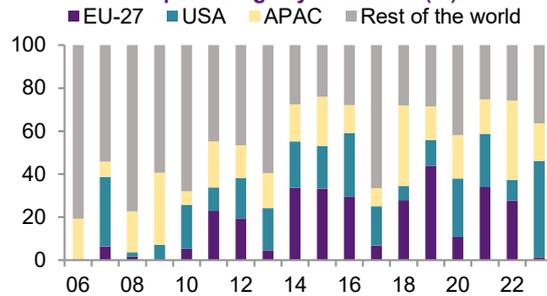
Moving to mergers and acquisitions (M&A), the EU has been an important target for Chinese overseas M&A in the last decade, but this has been waning both in absolute terms and as a percentage of the total, especially in 2023. (Graphs 15 and 16). The sector attracting the most M&A from China in the EU has been the automotive sector, which is an interesting finding given the recent loss of competitiveness of the EU's automotive sector relative to China, especially when it comes to electric vehicles. (Graph 17).

Graph 15
China: Destination of the overseas
completed M&A (USD bn)



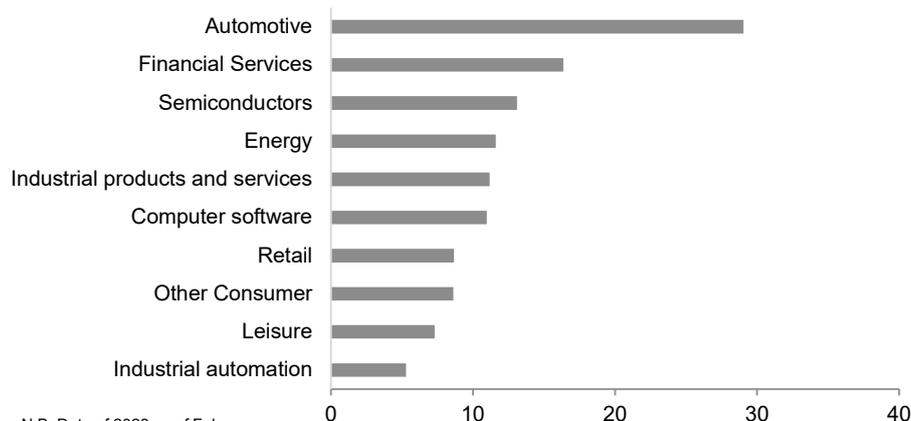
N.B. Data of 2023 as of Feb.
 Source: Mergermarket

Graph 16
China: Destination of the overseas
completed M&A
The percentage by deal value (%)



N.B. Data of 2023 as of Feb.
 Source: Mergermarket

Graph 17
China: Top 10 Sectors of completed M&A in EU countries by value
(2006-2023 ytd, USD bn)



N.B. Data of 2023 as of Feb.
 Source: Mergermarket

It is also worth noting that China's greenfield investment in Europe is growing in importance, constituting 57% of the total in 2022 and up from just over 3% in 2014, according to the same report by Rhodium. The bulk of China's greenfield investment is in EV battery factories, with over €14bn invested through the five biggest deals since 2017 alone. More than half comes from CATL's 2022 investment of €7.6bn to build Europe's largest planned EV battery factory in Hungary. Based on the above, one could wonder whether the EU will manage to keep a resilient value chain in the EV space without becoming too dependent on Chinese battery makers, not only for imports but even for production in Europe.

2.2 Security and political issues

Although this testimony focuses on the economic aspects of EU-China relations, one must consider factors that go beyond or intersect with the economic to fully grasp the deterioration of relations. There are political issues, especially Russia's invasion of Ukraine, that must be held alongside purely economic considerations. Moreover, China's increasing presence in critical European infrastructure is becoming a focal point following the introduction of political sanctions and is affecting trade and investment relations.

2.2.1 China's presence in critical infrastructure

China's most relevant presence is in ports, primarily through companies like COSCO Shipping (the world's largest shipping company) and China Merchants Port Holdings (the sixth largest port terminal operator globally), but also Hutchison Port Holdings (a subsidiary of CK Hutchison Holdings, a private company headquartered in Hong Kong) which is the second largest port

terminal operator in the world.³ These companies operate container terminals and sometimes smaller inland ports in more than 10 European countries, with COSCO having full operative control of Piraeus, the port of Athens, since acquiring a majority stake in 2016.

China's ownership of European airports is limited and has come down in the last half-decade following a series of re-acquisitions by European entities. These include the takeovers of the airports of Toulouse⁴, Frankfurt Hahn⁵, and Tirana⁶, but also the airport service-provider Swissport which was acquired by an international consortium of investors to bail out Chinese conglomerate HNA following a dive in revenues during the pandemic.⁷ In the UK, China Investment Corp. holds a 10% stake in London Heathrow airport since 2012.⁸

One of the most contentious issues is China's participation in the European electrical grid. Chinese state-owned companies such as State Grid Corporation of China (SGCC) own large minority stakes in the national transmission system operators in 11 EU member states, with a particularly strong presence in Portugal, Italy, Greece, and Luxembourg.^{9,10} Moreover, two Chinese companies own a joint majority stake in the renewable energy division of the Portuguese national grid operator Energias de Portugal (EDP) and are making inroads in the renewable energy sector in Spain.

Moving to nuclear energy, the most obvious case of critical presence is in the UK. In fact, China General Nuclear (CGN) has so far funded 33% of Hinkley Point C, a 3.2GW nuclear facility under construction and due to be finished in 2026.¹¹ However, CGN has been cut out of ownership structures of future nuclear power facilities following a turn in 2022. In the same vein, in 2020 CGN

³ Chinese strategic interests in European ports (Member's Research Service of European Parliament, 2023), <https://epthinktank.eu/2023/02/28/chinese-strategic-interests-in-european-ports/>

⁴ <https://www.france24.com/en/20191231-chinese-operator-sells-toulouse-airport-stake-to-french-company-for-€200m-profit-1>

⁵ <https://www.aviation24.be/airports/frankfurt-hahn-airport-hhn/triwo-ag-takes-over-bankrupt-frankfurt-hahn-airport/>

⁶ <https://www.tirana-airport.com/en/article/24/History-of-the-Airport#:~:text=As%20of%20December%2018%2C%202020,positioned%20in%20Albania%20and%20worldwide.>

⁷ <https://www.swissinfo.ch/eng/business/chinese-owned-swissport-agrees-emergency-takeover/46003068>

⁸ <https://www.heathrow.com/company/about-heathrow>

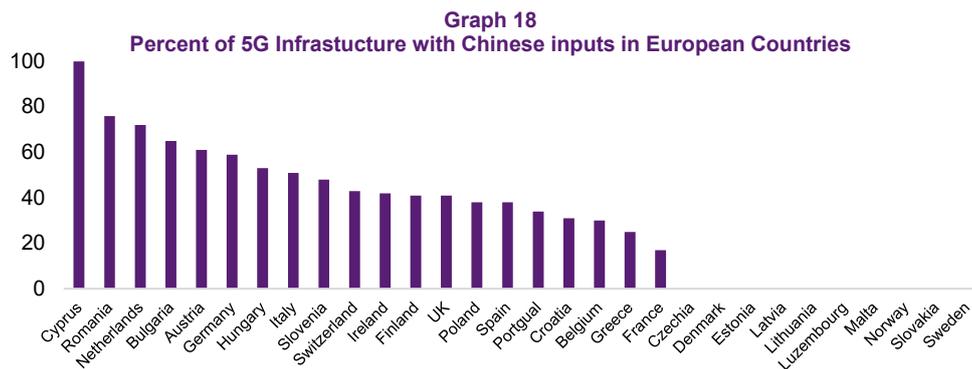
⁹ China's at the Gate of the European Power Grid, Groupe d'études géopolitiques (September 2021), <https://geopolitique.eu/en/articles/chinas-at-the-gate-of-the-european-power-grid/>

¹⁰ <https://www.enerdata.net/publications/executive-briefing/international-electricity-investments-europe.html>

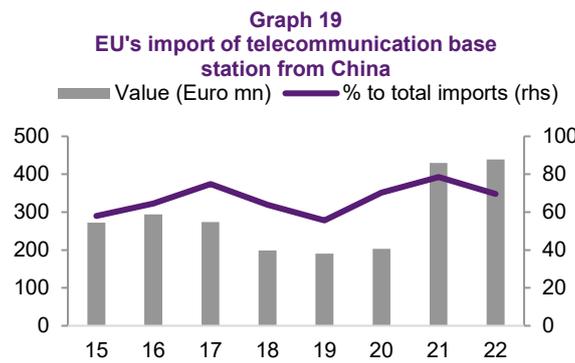
¹¹ Briefing: China's Involvement in UK Nuclear (5 July 2022), <https://chinaresearchgroup.org/research/briefing-chinas-involvement-in-uk-nuclear-power>

was outmaneuvered by the Romanian government over a deal to build two nuclear power plants in the country.¹²

Telecommunications infrastructure has probably become the most sensitive issue among the different aspects of China’s presence in European infrastructure and, in particular, 5G. In fact, Huawei is present in 19 EU member states and only a third of member states have banned the use of Chinese components in 5G infrastructure,¹³ despite an EU agreement in 2020 to screen security risks in its 5G infrastructure (Graph 18).¹⁴ In the same vein, imports of telecoms base stations from China have only increased since 2020 (Graph 19).



Source: Strand Consult



Source: Eurostat

Finally, sub-sea cables are also relevant critical infrastructure where China is making inroads. In particular, China is planning a \$500mn undersea fiber-optic internet cable, known as EMA (Europe-Middle East-Asia), which will run from Hong Kong to Hainan before reaching Singapore, Pakistan, Saudi Arabia, Egypt, and France. This project aims at rivalling the US-backed \$600mn program “SeaMeWe-6”.¹⁵ This is part of a

¹² <https://balkaninsight.com/2020/05/27/romania-cancels-deal-with-china-to-build-nuclear-reactors/>

¹³ <https://www.ft.com/content/a6900b0f-08d5-433d-bfb0-f57b6041e381>

¹⁴ <https://www.ft.com/content/ee3f0764-41fc-11ea-bdb5-169ba7be433d>

¹⁵ <https://www.reuters.com/world/china/china-plans-500-mln-subsea-internet-cable-rival-us-backed-project-2023-04-06/>

broader Chinese initiative to build a new global subsea cable network to control future key Internet infrastructure.¹⁶

2.2.2 Sanctions and other retaliatory measures

As part of its autonomous measures, the EU imposed targeted sanctions on Chinese officials and entities over human rights concerns related to the treatment of Uighur Muslims in China's Xinjiang region.¹⁷ These sanctions involved travel bans and asset freezes.

China retaliated against these targeted sanctions on 22 March 2021 by sanctioning 10 EU nationals and 4 EU entities, including Members of the European Parliament and of the Council's Political and Security Committee.¹⁸ The consequences of such actions on EU-China economic relations and, in particular, on the EU-China investment agreement will be discussed later.

In addition, in December 2021, China curtailed virtually all Lithuanian exports into China, as well as Lithuanian elements of goods exported from other EU countries to China, notably Germany.¹⁹ This decision came after Lithuania decided to open a Taiwan (and not Taipei) Representative Office in Vilnius in July 2021 after exiting the so-called "17+1" group.²⁰ The EU responded close to a year later by suing China at the World Trade Organization for imposing punitive trade restrictions on Lithuania. In addition, China's coercion against Lithuania became instrumental in the EU Commission's push for an EU-level Anti-Coercion Instrument (ACI) which was finally ratified on June 6, 2023.

Finally, since the Russian invasion of Ukraine, and the rather ambiguous role that China has played, Western sanctions against Russia have not been followed by China. Against this backdrop and based on the US and EU red line imposed on China that no arms will be delivered to Russia, the EU Commission proposed on May 8 2023 to blacklist several Chinese companies, on which no decision has yet been taken by the EU Council.²¹

3. Rollercoaster relations moving from autonomous trade measures towards de-risking

¹⁶ <https://www.datacenterknowledge.com/networks/what-chinas-major-submarine-cable-means-us-network-architects#close-modal>

¹⁷ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2021:099I:FULL&from=EN>

¹⁸ [https://www.europarl.europa.eu/RegData/etudes/ATAG/2021/690617/EPRS_ATA\(2021\)690617_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/ATAG/2021/690617/EPRS_ATA(2021)690617_EN.pdf)

¹⁹ https://ec.europa.eu/commission/presscorner/detail/en/IP_22_627

²⁰ <https://www.euractiv.com/section/china/news/lithuania-quits-divisive-china-171-group/>

²¹ [https://www.reuters.com/world/eu-takes-aim-chinese-firms-third-country-exports-tighten-russia-sanctions-2023-05-08/#:~:text=BRUSSELS%2C%20May%20%20\(Reuters\),for%20the%20war%20against%20Ukraine.](https://www.reuters.com/world/eu-takes-aim-chinese-firms-third-country-exports-tighten-russia-sanctions-2023-05-08/#:~:text=BRUSSELS%2C%20May%20%20(Reuters),for%20the%20war%20against%20Ukraine.)

While the downward trend in relations seems apparent, the way in which it is happening is not a precipitous descent but more like a rollercoaster ride, with the lowest point reached after Russia's invasion of Ukraine and the highest after French President Emmanuel Macron's recent visit to Beijing in April. Although Macron's accommodating stance toward China was widely discussed, the message delivered during the same official trip by the EU Commission President, Ursula von der Leyen, seems to have outlasted that of Macron. Her message was centred on the need for the EU to de-risk from China, as exposed in von der Leyen's speech prior to her official trip to Beijing, which highlights four aspects related to de-risking and that will be discussed later.²²

3.1 A big carrot: the Comprehensive Agreement on Investment

After more than seven years and 35 rounds of negotiations, the European Union finally reached a deal with China on the Comprehensive Agreement on Investment (CAI) in December 2020. CAI was intended to replace 25 bilateral investment agreements between individual EU member states and China by offering greater market access within specific sectors. Ultimately, the goal was to reduce uncertainty for European investors in China by introducing more transparency regarding subsidies (actually only on services) and the general behaviour of Chinese state-owned enterprises (SOEs).

In the same vein, CAI aimed at opening some segments of the Chinese market to European foreign direct investment, mostly in line with concession that China had already made to the US under the Phase I deal. Beyond those targeted concessions, for electric vehicles and some health services, overall, the playing field remains tilted in China's favour. In fact, the small but relevant gains on market access were not accompanied by a clear improvement on investor protection as CAI only covers state-to-state dispute settlement pending the agreement on other forms of investment protection. This means that the existing infrastructure for handling financial disputes cannot be eliminated yet, namely the existing individual investment agreements between 26 EU member states and China.

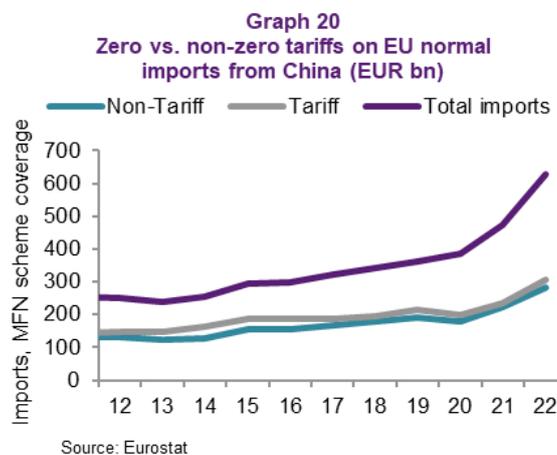
Finally, while CAI includes some provisions on environment and labour rights protection, the conditions fall short of what has previously been agreed to in other investment or trade deals agreed by the EU which made the ratification at the European Parliament uncertain from the start. As if this were not enough, China's sanctions on some members of the European Parliament in March 2021 ended up in the EU Parliament's decision to refuse any discussion on CAI until these sanctions were lifted. Since then, CAI is pending ratification and the prospects that the situation changes any time soon are quite slim.

3.2 A set of sticks: the EU autonomous measures

²² https://ec.europa.eu/commission/presscorner/detail/en/speech_23_2063

As the EU was moving towards the negotiation of CAI, the environment changed radically, first externally, as the Trump administration started its trade war with China but also with a huge surge of Chinese investment into European companies, many of which in strategic companies as well as much harsher competition in third markets supported by China’s bold industrial policy based on massive subsidies.

While the EU has stepped up the use of autonomous measures to deal with non-market economies, it is important to note that the EU has not followed the US in terms of raising tariffs on China, as is shown by the share of tariff versus non-tariff EU imports from China having remained the same notwithstanding the large increase in total imports (Graph 20).



Beyond tariffs, the EU Commission has developed a number of autonomous measures (Table 2). One key example, also because of how it may have been influenced by the Committee on Foreign Investment in the United States (CFIUS), is the EU Foreign Direct Investment Screening Regulation, which came into effect on October 11, 2020 and which has for its scope to review both acquisitions and investment from outside the EU in any strategically relevant.²³ This is no more than a coordination device among Member States and the Commission, which can then issue opinions and recommendations. These, however, are not binding as the individual Member State has the final decision. It should also be noted that Member States often have distinct screening mechanisms, with 18 out of 27 Member States having one in place at the moment.²⁴

Table 2: Some of the EU autonomous measures

Measure	Date
Anti-dumping regulation	Jun 2016
Foreign investment screening mechanism	Oct 2020
Foreign subsidies regulation	Jan 2023

²³ https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1867

²⁴ <https://circabc.europa.eu/ui/group/be8b568f-73f3-409c-b4a4-30acfccec5283/library/7e72cdb4-65d4-4eb1-910b-bed119c45d47/details>

Anti-coercion instrument	Jun 2023
Corporate Sustainability Due Diligence Directive (CSDD).	Jun 2023

Source: The EU Commission, Bruegel

In 2022, there were at least 16 publicly disclosed screenings of Chinese investments into the EU and the UK, of which only 4 were ultimately cleared and the rest were either blocked or annulled, or the offer collapsed or was withdrawn.²⁵ Two attempted investments into the EU semi-conductor industry were blocked. The only two publicly screened cases that were ultimately permitted in the EU were an investment into the Italian robotics company Robox, subject to a prohibition of technology transfer, and an increased equity stake in the Tollerort container terminal in Hamburg, subject to restrictions.

3.3. De-risking

The EU Commission’s move from carrots and sticks to de-risking needs to be understood as a response to major events: one mostly political but a second one which is mostly economic. The first is Russia’s invasion of Ukraine and its implications for the “Weltanschauung” of European leaders. Not only have these leaders all of a sudden had to become more geopolitical, but they have also realized that Russia and China share more in common than previously understood. The second reason, more economic, is the EU’s increasing dependence on China for its energy transition, which naturally brings back bad memories about the EU’s (and specially Germany’s) excessive dependence on Russian gas.

The basic idea behind the EU’s de-risking strategy was set out in the speech Commission President von der Leyen delivered right before her trip to Beijing in April.²⁶ A first important point in her speech is the acknowledgment that decoupling from China is neither viable, nor in the EU’s interest. However, she considers economic de-risking after the “diplomatic” de-risking, which has been accelerated by Russia’s invasion of Ukraine. Von der Leyen’s call for de-risking is based on four pillars. The first is about the EU economy itself, which needs to become more competitive and resilient, through industrial policies or other means, and in particular as regards health, digital and green technologies. The net zero industrial act (aiming at 40% of the clean tech being produced in the EU) is the key instrument pushed by the commission for this goal together with the Critical Raw Material (CRM) Act. The second pillar is a better use of existing trade-related autonomous measures but also mentions elevating them to cover sensitive high-tech areas such as microelectronics, quantum computing, robotics, artificial intelligence and biotech. In the same vein, she mentions the need to reflect on a potential new instrument, namely that of outbound investment screening to limit the transfer of sensitive technologies to China.

²⁵ <https://rhg.com/research/chinese-fdi-in-europe-2022-update/>

²⁶ https://ec.europa.eu/commission/presscorner/detail/en/speech_23_2063

This should be part of the EU new Economic Security Strategy to be unveiled by the EU Commission in the next few days.

The above shift towards de-risking came against the backdrop of a rather strong message by numerous EU heads of state against decoupling from China, including German Chancellor Scholz, during his official visit to Beijing in November 2022. To understand what prompted the EU Commission, and in particular von der Leyen, to push for de-risking, it is important to understand what might not have gone well with the EU's previous strategy. In fact, the EU's three-pronged approach to relations based on carrots and sticks was meant to achieve cooperation while reducing competition and, especially, rivalry. In reality, cooperation has been much harder to achieve than expected and competition is stronger than ever, with rivalry in some areas. This has become more apparent after the exchange of sanctions, China's coercion against Lithuania and, particularly, since Russia's invasion of Ukraine and China's ambiguous position in this regard. Below is an account of the big carrot and several sticks until reaching the current stage of de-risking.

It is still uncertain how the EU will continue to develop its own idea of de-risking and how it will compare with that of the US administration but it seems important to reflect on the fact that both the US and the EU seem to be heading in the same direction but on parallel venues without due account of each other.

This might not be the best way to achieve a common goal, namely that of de-risking from what is becoming an increasingly pervasive dependence from the Chinese economy. As such, a proposal for coordination follows.

4. Policy options: coordinated specialization and trade agreements

Moving from existing measures to policy options, it is important to realize that not only the EU is benefitting less from its economic relations with China, but other countries too. At the same time, the world is confronting a major challenge, namely that of decarbonizing, which requires global cooperation. Against this backdrop, the EU to de-risking from China unilaterally, without taking due account of the actions taken by the US or other countries, does not seem to be the best option. A good example of the potential tensions that such unilateral actions may entail is the Inflation Reduction Act introduced by the US and its impact on the European Union, which also explains the EU's quest for industrial policy, especially as regards the securing of critical raw materials under the CRM.

A better solution, in my view, would be to opt for coordinated specialization in which a number of like-minded countries would decide to pool resources in four key areas: (i) access to critical raw materials and (ii) their refining, (iii) green-energy related innovation as well as the transfer of new technologies in the field,

and, finally, (iv) manufacturing of solar panels, EV batteries and wind turbines. Such coordinated specialization should be a safer, and cheaper, bet to create an alternative ecosystem in terms of green energy as countries within the ecosystem would not need to compete among themselves with subsidies or other forms of protectionist measures.

This parallel ecosystem should actually be welfare-enhancing globally as nobody is better off when depending on a single source for its energy transition, not even China. In fact, any unexpected event in China, including an environmental catastrophe or a new pandemic, if today's high dependence on China were to persist, could seriously delay the decarbonization efforts of all countries in the world including China itself. In addition, concentrating as much as 90% of the production of a specific green energy sector may lead to technological path-dependence, which may impede the development of more effective technologies.

This is why moving towards coordinated specialization to create an alternative ecosystem of procurement of raw materials, innovation and production seems like a good way forward for the EU but also the US and the world as whole, including China.

Finally, de-risking while decarbonizing through coordinated specialization is a potential solution, it does not address the challenges related to the EU's quest to remain competitive in third markets, which is complicated by China's massive deployment of industrial policy. In fact, China's sheer size means that its industrial policy has major global effects. The EU has learned this the hard way in the case of solar panels and, more recently, electric vehicles. Against this backdrop, a coordinated response to China's non-market-driven competition seems like a better option than piecemeal responses by like-minded countries.

Finally, on the trade front, while the EU has stepped up its efforts to sign new trade and investment deals, the progress is still slow, especially for major economies in Asia. To accelerate this process and offer a clear signal that the EU is back for business, it seems important to follow the United Kingdom in its recent accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTTP). While the EU Commission does not appear keen to pursue this route, given its long-standing role as broker of its own trade and investment deals, I am convinced that the signalling effect of being part of CPTTP would be extremely important for Asia and the Pacific. This would be even more the case if the US were to follow the same path.

5. Conclusions

EU-China relations are going through sharp gyrations, but the trend is clearly not positive. This begun in 2019, especially since the start of the pandemic and,

even more so, since Russia's invasion of Ukraine. This reality is not as related to the US as some analysts may think, especially from Beijing's perspective. But it is an unmistakable signal of the EU's awareness of the diminishing economic benefits of its relations with China, beyond other important political and value-based considerations.

Given the EU's increasing dependence on China for its energy transition, the need to re-risk is now at the forefront of its policy discussions. The EU's understanding of de-risking does not seem to be the same as that of the US, since it is meant to be more targeted and mainly focused on the ability to secure critical raw materials for the EU's own supply-chain of green energy manufacturing. In addition, the US has become increasingly wary of its own industrial policy without paying due account to the EU's position.

Given the above, my proposal would be to push de-risking at a multilateral level. In fact, rather than carrying out different strategies of de-risking in an uncoordinated manner, I would advocate for coordinated specialization by a group of like-minded countries as a way to reduce excessive dependence on China's monopoly over the sourcing of green energy. This proposal clearly does not solve all the economic issues that the EU is piling up as far as China is concerned, but it could be a good starting point.

A second proposal is to continue to expand market access to the fast growth-region in the world, namely Asia. The simplest way to do so would be for the EU and the US to follow the UK in applying to join the CPTTP. The latter should be considered as an important signal that the West is open for business and considers the Pacific as a very important part of its economic strategy, not only its security strategy.

Finally, while defensive measures—such as the chips ban or outbound investment screening—might be needed, they will not be enough without offensive measures centred on reducing the dependence on China for the green transition and in increasing trade and investment with the rest of the world, in particular the Global South.

**OPENING STATEMENT OF LINDSAY GORMAN, SENIOR FELLOW AND
HEAD OF THE TECHNOLOGY AND GEOPOLITICS TEAM, ALLIANCE FOR
SECURING DEMOCRACY, GERMAN MARSHALL FUND OF THE UNITED STATES**

COMMISSIONER FRIEDBERG: Excellent. Thank you very much. Ms. Gorman. We can't hear you.

MS. GORMAN: Sorry about that. Thank you so much. I'm also going to give a condensed testimony, but Commissioners, thank you for the opportunity to testify before you today. The views I express here in this testimony are my own and do not represent those of my current and former employers.

I serve as the Head of the Technology and Geopolitics Team at the German Marshall Fund's Alliance for Securing Democracy, where I lead a research initiative studying how democracies can together output the autocrats, chiefly China in emerging technologies.

I recently also had the privilege of serving at the White House, where I crafted technology and national security competitiveness strategy for the U.S. Government and developed initiatives to implement that strategy, including through multilateral initiatives such as the Trade and Technology Council, where I led the TTC's work on AI.

My testimony today will focus on the underpinnings of European technology competitiveness and its convergences and divergences with the U.S. at the strategic level; CCP technology transfer as a case study for the interplay among technical, economic, and national security objectives that define competitiveness; AI regulatory models across the EU, U.S., and PRC; prospects for the U.S.-EU Trade and Technology Council; and recommendations for Congress. At least, that is what is in the written testimony, and I may skip over some of these in the interest of time.

But let me start by emphasizing that on the question of U.S. and European views on PRC technology competition, the direction is unequivocally that of convergence. Precise Transatlantic alignment may never materialize, but enthusiasm in the TTC is high on a new approach to Transatlantic technology policy, one that is more connected, more allied, and ultimately more conducive to both sides' strategic goals.

The United States must seize on its motivations, cement channels for technology policy coordination, and deliver concrete joint outcomes. Europe's technological competitiveness agenda, particularly the aspects that involve the PRC, must be understood in the context of a changing geopolitical climate around the global threat of authoritarianism.

For years and even decades, European discussions around technology competitiveness have focused on the United States, not the PRC, as the main pacing competitor. In recent years, however, and especially due to Putin's invasion of Ukraine and Xi's joint growing closeness in spite of it, the rising tide of authoritarianism has become concrete for Europe, leading to a gradual return to a more strategic posture on security and prosperity. Democratic values, too, are increasingly part of European rhetoric, including on technology.

Yet, still, key differences with the United States' approach to technology competition remain. First, the United States' view of technology competition is more centered in and animated by systemic competition with the PRC. The threat of PRC global and technological international leadership is a kick in the pants and a rallying call for bipartisan action in the United States, as evidenced by conversations around the CHIPS Act and the House China Commission.

For Europe, this is far less of a zero-sum game. Indeed, the EU's Digital Decade Initiative largely predates rising concerns about PRC global influence and is motivated more by a desire to position Europe itself as a global technology leader or at least have a strong footing of its own in an era of U.S.-China technology competition.

Second, despite enormous progress over the last two years, an inherent degree of skepticism of the United States and especially U.S. technology companies persists. This sentiment is not likely to be readily overcome as the United States enters the 2024 election season and questions of protectionism and U.S. foreign policy again surface.

Third, whereas the United States has moved further and faster on the defensive tool kit of measures, such as export controls and investment screening, to counter PRC malign activity, intellectual property theft, and the threats posed by PRC military-civil fusion in technology, Europe has leaned in harder in its quest to be a global technology regulatory leader, developing country-agnostic solutions that position the continent as a standard bearer for human-centered or responsible approach to tech regulation and which apply regardless of actor.

With the landmark GDPR and now the EU AI Act, but also the Digital Services Act and Digital Markets Act, Europe is cementing its track record on this approach. Ultimately, this is fertile ground for deepening Transatlantic partnership. The United States would do well to adopt country-agnostic solutions such as on federal data privacy legislation that Europe has taken. Likewise, European policymakers are starting to recognize some of the limits of a purely country-agnostic approach, especially when it comes to critical infrastructure such as 5G. At the same time, while differences among and certainly within member states persist, much of the naivete that characterized the Western relationship with the PRC has been shed, at least at the level of the European Commission.

As Ursula von der Leyen, European Commission President, stated pointedly in March, the Chinese Communist Party's clear goal is systemic change of the international order with China at its center. And we have seen the show of friendship in Moscow, which says 1,000 words about this new vision for international order. Such a clear-eyed pronouncement would have been unthinkable five years ago and reflects this acceleration in European strategic thinking.

The European China strategy that this de-risking speech laid out is chiefly an economic and technology strategy with striking and encouraging similarities in approach to the U.S. technology competition strategy. Its four pillars include making Europe's economy more competitive and resilient, more assertively enforcing trade adjustments and instruments for security concerns, such as the 5G toolbox, investment screening mechanisms, export controls, foreign subsidies regulation, and a new anti-coercion mechanism.

The third pillar, developing new defensive tools for critical sectors such as microelectronics, quantum computing, robotics, artificial intelligence, and biotech, to close gaps in leakage in critical and emerging technologies. And fourth, aligning with other partners. Similarly, the tech competitiveness strategy framework that National Security Advisor Jake Sullivan laid out to the National Security Commission on AI and the Special Competitive Studies Project in 2022 highlights these four pillars: investing in the U.S. technology ecosystem, nurturing STEM talent, protecting technology advantage, and deepening cooperation with allies and partners.

Increasingly, these descriptions of the defensive or protect toolkit are aligning, as are the mechanisms of action under consideration. And so, too, are the promotional pieces of these strategies, from the EU CHIPS Act to efforts to lead the clean tech revolution and reduce

dependence on PRC in critical materials and raw minerals. Finally, both sides have embraced de-risking to describe the relationship. So we have truly come a long way.

In, I think, the one minute that I have left, I'll just go to some recommendations for U.S. Congress to enhance Transatlantic technology competitiveness vis-à-vis China. First, invest in the TTC for semi-permanence.

Congress should consider building a line item into the state and foreign operations budget to support the TTC over a five- to ten-year time scale. Connective tissue is important, and bureaucratic mechanisms take time and effort. And it's important to insulate these efforts from political changes.

Second, improve joint analysis of PRC tech efforts to transfer technology and gain advantage. Third, coordinate on outbound investment screening. Fourth, develop a new export control regime for critical emerging technologies that includes a strong consideration of human rights abuses.

Fifth, lead by example on a framework for autocratic app regulation that is risk-based. Next, consider areas for alignment with EU on AI regulation. And lastly, invest in responsible AI to provide a democratic vision and a counter to China's AI model.

I'll pause there, and thank you for your time and look forward to your questions.

**PREPARED STATEMENT OF LINDSAY GORMAN, SENIOR FELLOW AND HEAD
OF THE TECHNOLOGY AND GEOPOLITICS TEAM, ALLIANCE FOR SECURING
DEMOCRACY, GERMAN MARSHALL FUND OF THE UNITED STATES**

Testimony before the US-China Economic and Security Review Commission

Europe, the United States, and Relations with China:
Convergence or Divergence?

Panel II: Convergence and Divergence: Technology, Standards/Data, and Trade

European Approaches and Transatlantic Opportunities for
Emerging Technology Competitiveness

Thursday, June 15, 2023

Lindsay Gorman

Senior Fellow and Head of the Technology and Geopolitics
Team, Alliance for Securing Democracy
The German Marshall Fund of the United States



Commissioner Mann, Commissioner Friedberg, and distinguished members of the Commission, thank you for the opportunity to testify before you today. The views I express in this testimony and before you are my own and should not be taken as representing those of my current or former employers.

I serve as the head of the Technology and Geopolitics Team at the German Marshall Fund's Alliance for Securing Democracy, where I lead a research initiative studying how democracies can together outcompete autocrats – chiefly China – in emerging technologies. I had the privilege of serving at the White House, where I crafted technology and national security competitiveness strategy for the U.S. government. I also developed initiatives to implement that strategy, including through multilateral initiatives. I was part of the team that stood up the US-EU Trade and Technology Council, served as the US lead for the TTC's work on AI, and led the US delegation in the Quad Critical and Emerging Technology Working Group effort on Horizon Scanning. Both during my time at GMF and in government, I have had the opportunity and privilege of engaging extensively with officials, policy, and technology communities across the Atlantic, both at the EU and member state level on China technology matters from 5G and digital infrastructure to AI and international standards setting. Finally, my academic training is in quantum physics and computer science, and I spent the first part of my career working with start-up companies and venture capital, including founding a firm looking at emerging technologies.

My testimony will focus on: (i) the underpinnings of European technology competitiveness and its convergence and divergences with US at the strategic level; (ii) CCP Technology transfer as a case study for the interplay among technical, economic, and national security objectives that define competitiveness; (iii) AI regulatory models from the EU, US, and PRC; (iv) prospects for the US-EU Trade and Technology Council; and (v) recommendations for US Congress.

But let me start by emphasizing that on the question of US and European views on PRC technology competition, the direction is unequivocally that of convergence. Precise transatlantic alignment may never materialize. But enthusiasm in the TTC is high on a new approach to transatlantic technology policy – one that is more connected, more allied, and ultimately more conducive to both sides' strategic goals. The United States must seize on this motivation, cement channels for technology policy coordination, and deliver concrete joint outcomes.

A growing credible threat of techno-authoritarianism

Europe's technological competitiveness agenda – particularly the aspects that involve the PRC – must be understood in the context of the changing geopolitical climate around the global threat of authoritarianism. For years, and even decades, European discussions around technology competitiveness have focused on the United States, not the PRC, as the main, pacing competitor. In recent years, however, and especially due to Putin's invasion of Ukraine

and Xi's growing closeness in spite of it, the rising tide of authoritarianism has become concrete for Europe, leading to a gradual return to a more strategic posture on security and prosperity. Germany's release of a national security strategy for the first time is an exemplar of this reality, and its China strategy is to follow next month.¹ Democratic values too are increasingly part of European rhetoric, including on technology. At the first TTC Ministerial in Pittsburgh the US and EU put shared values at the heart of their work on AI. They wrote:

The European Union and the United States acknowledge that AI technologies yield powerful advances but also can threaten our shared values and fundamental freedoms if they are not developed and deployed responsibly or if they are misused. The European Union and the United States affirm their willingness and intention to develop and implement AI systems that are innovative and trustworthy and that respect universal human rights and shared democratic values.²

Yet still, key differences with the United States approach to technology competition remain. First, the United States' view of technology competition is more centered in and animated by systemic competition with the PRC. The threat of PRC global technological and international leadership is a kick in the pants and rallying call for bipartisan action in the United States, as evidenced by conversations around the CHIPS Act and the House China Commission. For Europe, this is far less of a zero sum game. Indeed, the EU's "Digital Decade" initiative largely predates rising concerns about PRC global influence and is motivated more by a desire to position Europe itself as a global technology leader, or at least have a strong footing of its own in an era of US-China technology competition.

Second, despite enormous progress over the last two years, an inherent degree of skepticism of the United States and especially US technology companies persists. This sentiment is not likely to be readily overcome as the United States enters the 2024 election season and questions of protectionism in US foreign policy again surface.

Third, whereas the United States has moved further and faster on the defensive toolkit of measures, such as export controls and investment screening, to counter PRC malign activity, intellectual property theft, and the threats posed by PRC military-civil fusion in technology, Europe has leaned in harder in its quest to be a global technology regulatory leader, developing country-agnostic solutions that position the continent as a standard bearer for a human-centered or responsible approach to tech regulation and which apply regardless of actor. With the landmark General Data Protection Regime and now the EU AI Act – but also the Digital Services Act and Digital Markets Act – Europe is cementing its track record on this approach. Ultimately, this is fertile ground for deepening transatlantic partnership. The United States would do well to adopt country-agnostic solutions, such as on federal data privacy legislation, that Europe has taken. Likewise European policymakers are starting to recognize some of the limits of a purely country-agnostic approach, especially when it comes to critical infrastructure such as 5G.

¹ ["Integrated Security for Germany, National Security Strategy"](#), German Federal Foreign Office, June 2023.

² ["EU-US Trade and Technology Council Inaugural Joint Statement"](#), European Commission, September 29, 2021.

From “partner, competitor, systemic rival” to “de-risking”: increasing alignment in US and EU technology competition strategy

At the same time, while differences among and certainly within member states persist, much of the naivete that characterized the Western relationship with the PRC has been shed, at least at the level of the European Commission. As European Commission President Ursula von Der Leyen stated pointedly in March at the Mercator Institute, “the Chinese Communist Party's clear goal is a systemic change of the international order with China at its centre...and we have seen the show of friendship in Moscow which says a thousand words about this new vision for an international order.”³ Such a clear-eyed pronouncement would have been unthinkable 5 years ago and reflects this acceleration in European strategic thinking brought about by both pandemic supply chain shocks and the Ukraine war.

The European ‘China strategy’ that this ‘de-risking’ speech laid out is chiefly an economic and technology strategy with striking and encouraging similarities in approach to U.S. technology competition strategy. Its four pillars include: (1) making Europe’s economy more competitive and resilient; (2) more assertively enforcing trade instruments for security concerns such as the 5G Toolbox, investment screening mechanism, export controls, Foreign Subsidies Regulation, and a new anti-coercion instrument; (3) developing new defensive tools for critical sectors such as microelectronics, quantum computing, robotics, artificial intelligence, and biotech to close gaps in leakage in CET; and (4) aligning with other partners. (The United States is not mentioned as such a partner, however.)

The technology competitiveness strategy framework that U.S. National Security Advisor Jake Sullivan laid out to the National Security Commission on AI in 2021 and the Special Competitive Studies Project in 2022 highlights four pillars: investing in the U.S. technology ecosystem, nurturing STEM talent, protecting technology advantages, and deepening cooperation with allies and partners.

Increasingly, US and EU descriptions of the “defensive” or “protect” toolkit are aligning, as are the mechanisms of action under consideration, including investment screening (inbound and outbound), technology export controls, and concern around PRC intellectual property theft.

So too are the promotional pieces of these strategies converging on a recognition of strategic industries. The EU Chips Act ambitiously aims to double the EU’s global market share in semiconductor production to 20% by 2030 with \$43 billion in public and private investment.⁴ Many are skeptical, however, that the quadrupling of production necessary to meet this target will be realistic.⁵ Both the US and EU have called for leadership in the clean tech revolution and are focusing on reducing dependency on the PRC for critical raw materials. Interested in making Europe “the home of clean tech and industrial innovation,” the Commission aims to

³ [“Speech by President von Der Leyen on EU-China Relations to the Mercator Institute for China Studies and the European Policy Centre”](#), European Commission, 30 March 30, 2023.

⁴ [“Infographic - The EU Chips Act”](#), Council of the European Union, 2022.

⁵ [“EU Strikes €43 Billion Deal to Boost Semiconductor Chip Production”](#), Euronews, April 19, 2023.

produce 40% of clean tech needed for the green transformation and decrease its 98% dependency on China for rare earth minerals.⁶

Finally, both sides have embraced the EU terminology of “de-risking” to describe the technology relationship with the PRC.

We have truly come a long way. The work of the next two years will need to translate what is now a side-by-side alignment on the risks, opportunities, and tools to address them into a more closely fused notion of allied competitiveness that builds transatlantic partnership into the respective implementation of these tools.

European efforts to combat tech transfer: Intellectual Property theft and Standard Essential Patents for 5G

Part of the complexity in this era of strategic competition is the competition is playing out on the non-traditional battlefields of industrial policy – not in the seas or skies, but the labs and factories. This interplay among technological, economic, and national security imperatives is illustrated by the PRC’s use of IP theft and forced technology to gain technological supremacy.⁷

In late 2020, the European Commission adopted its Action Plan on Intellectual Property, which recognized that in the words of Commissioner Thierry Breton, “Europe is home to some of the world’s leading innovations, but companies are still not fully able to protect their inventions and capitalise on their intellectual property.” The Plan also commits to “stepping up the response to unfair practices committed by third country players, such as industrial espionage or attempts to misappropriate IP in the context of R&D cooperation.”⁸ As of its March 2022 implementation update, action on “fair global play” is notably thin. But the EU has taken this issue to the WTO with a dispute settlement case against China launched last year over PRC efforts to restrict EU companies to pursue legal action in non-PRC courts to protect their intellectual property. The Commission has also identified the PRC as the priority country in its May 2023 Report on the Protection and Enforcement of Intellectual Property Rights (IPR) in third countries, with specific concern on the lack of good faith negotiations on licensing of standards essential patents, such as in 4G and 5G telecommunications infrastructure.⁹

Despite these advances, the scope and scale of impact of CCP intellectual property theft in Europe remains poorly understood, and cyberattacks and theft continue. Earlier this year, Dutch semiconductor firm ASML discovered a former employee in China had misappropriated

⁶ Andrea Rizzi, “[Davos Forum Showcases Stark Competition among World Powers over Green Technology](#)”, El País, January 18, 2023.

⁷ Lindsay Gorman, “[A Future Internet for Democracies: Contesting China’s Push for Dominance in 5G, 6G, and the Internet of Everything](#)”, Alliance For Securing Democracy, October 27, 2020.

⁸ “[Commission Adopts Action Plan on Intellectual Property to Strengthen EU’s Economic Resilience and Recovery](#)”, Press Release, European Commission, November 20, 2020.

⁹ “[Commission Releases Its Report on Intellectual Property Rights in Third Countries](#)”, Directorate-General for Trade, European Commission, May 17, 2023.

data from the company unauthorized.¹⁰ Last year, cybersecurity firm Cybereason unearthed a massive PRC state-sponsored campaign by threat actor APT-41 targeting at least 30 multinational companies in North America, Europe, and Asia for high tech industrial espionage. The hackers stole blueprints to fighter jets and missiles, solar energy and vacuum system designs, and pharmaceutical IP in line with the PRC's strategic technology priorities.¹¹ These attempts and campaigns are only likely to escalate with tightened screws on China's semiconductor industry from export controls, as well as the expanded use of that tool for technological advantage across critical industries.

Building a shared transatlantic understanding of Chinese IP theft, including via cyber means, undergirded by economic data is an area ripe for deeper cooperation. As we at the Alliance for Securing Democracy at GMF have recommended, the work of the US Commission on the Theft of American Intellectual Property is a strong model for such an initiative, which could be pursued as part of the US-EU TTC or US-EU Dialogue on China.¹²

Artificial Intelligence regulation: Europe, the US, and the PRC

Adopted by the EU Parliament, the EU AI Act is the world's first comprehensive attempt to regulate artificial intelligence. It uses a risk-based approach that categorizes AI systems according to their risk to society in four tiers with corresponding regulation¹³:

- “Unacceptable risk” AI systems – such as social scoring systems, cognitive behavioral manipulation, and real-time and remote biometric identification systems are banned outright.
- “High risk” systems fall into two categories based on their potential negative impact on safety or fundamental rights, and as such require pre-market life cycle assessment:
 - The first category involves products such as toys, aviation, cars, and medical devices that fall under the EU's product safety legislation.
 - The second category includes uses such as biometric identification, critical infrastructure, law enforcement, education, access to public services and benefits, application of law.
- “Limited risk” AI systems, such as chatbots, come with specific transparency obligations.
- “Minimal or no risk” AI systems – which include the vast majority of applications in use – are allowed free use.

¹⁰ Arjun Kharpal, “[ASML Says Ex-China Employee Misappropriated Data Relating to Its Critical Chip Technology](#)”, CNBC, February 15, 2023.

¹¹ Nicole Sganga, “[Chinese Hackers Took Trillions in Intellectual Property from about 30 Multinational Companies](#)”, CBS News, May 4, 2022.

¹² Lindsay Gorman, “[A Future Internet for Democracies: Contesting China's Push for Dominance in 5G, 6G, and the Internet of Everything](#)”, Alliance For Securing Democracy, October 27, 2020.

¹³ “[EU AI Act: First Regulation on Artificial Intelligence](#)”, European Parliament, June 8, 2023.

The Act also outlines regulations on General Purpose AI, such as Large Language Models in terms of risk, robustness, and transparency.

While the United States has also adopted this ‘horizontal’ risk-based approach most notably in NIST’s AI Risk Management Framework and spelled out AI harms and guardrails in its Blueprint for An AI Bill of Rights, the key difference is that these initiatives are non-binding.

That has not stopped initial transatlantic cooperation at the TTC, though there is a lot of ground to cover. In December, the US and EU published the TTC Joint Roadmap on Evaluation and Measurement Tools for Trustworthy AI and Risk Management looking at terminologies and tools for trustworthy AI, categorizing AI risks and harms, and coordinating on AI standards. Building on this work, the EU and US are drafting an AI Code of Conduct as a bridge to the adoption of legislation. This Code will likely also feed into the newly announced G7 Hiroshima AI Process. To be sure, the US and EU will not be the only democratic actors charting the global course on AI regulation, with different approaches coming from the UK, Japan, and others as well.

On the autocratic side, the PRC’s approach to AI regulation is driven by competitiveness, but also a heavy emphasis on security and control. With the rise of generative AI, such control means limiting Chinese citizens’ own ability to use generative AI tools like ChatGPT or DALL-E and Midjourney to undermine state power. In short, the CCP is worried about its ability to control the proliferation of information – text, images, and videos that could spread politically liberal ideas or undermine the Communist Party leadership. In April, the Cyberspace Administration of China released draft rules for generative AI that insist companies adhere to Chinese censorship rules with AI systems that “reflect socialist core values.” Under the rules generative AI providers would be required to apply to the CAC for a security assessment and are also responsible for content produced by their systems.¹⁴ The draft rules build on similar rules for “deep synthesis” technologies, which require digital watermarks for all AI-generated content.

Unfortunately, AI image generator Midjourney CEO David Holz has already laid his cards on the table. He is quoted as saying on Discord that the company’s objectives are to “minimize drama.” “Political satire in china is pretty not-okay...the ability for people in China to use this tech is more important than your ability to generate satire.” Midjourney blocks images of Xi Jinping, despite allowing satire of other political leaders, though in its initial release was fairly easy to evade.¹⁵ Amidst significant attention to concern around deepfakes, algorithmic harms, and the threat of AI-driven extinction, these geopolitical questions concerning freedom of expression should not receive a pass in TTC or G7 processes on AI.

¹⁴ Seaton Huang, Helen Toner, Zac Haluza, Rogier Creemers, and Graham Webster, “[Translation: Measures for the Management of Generative Artificial Intelligence Services \(Draft for Comment\)](#)”, DigiChina, Stanford University, April 2023.

¹⁵ Isaac Stanley-Becker, and Drew Harwell, “[How a tiny company with few rules is making fake images go mainstream](#)”, The Washington Post, March 30, 2023.

The US-EU Trade and Technology Council -- important connective tissue.

I will turn briefly to the TTC. While some have criticized the TTC due to its non-binding nature and perceived sluggishness at delivering concrete results, I would submit that the enthusiasm level matters, and I know from personal experience that standing up international bureaucratic initiatives takes time – even when there is high-level buy-in on both sides. Building connective tissue matters if the US and EU are aiming for a paradigm shift in the development of transatlantic technology competitiveness policy. Moreover, the TTC has already been used as a model for cooperation between the EU and India, who have launched a TTC of their own.

The TTC's ten working groups have proceeded at different speeds, in large part due to the complexity of issues at hand. On technology standards, contact groups are allowing for coordination in the standards-setting process. In addition to the initiatives I described earlier, the AI sub-working group has delivered joint analyses of AI's impact on labor and commitments to develop and advance privacy-enhancing AI technologies. The TTC has produced joint technical recommendations for smart grids. On future digital infrastructure, the two sides are developing a common vision and industry roadmap on research and development for 6G wireless communication systems. Such an effort will help both the US and EU avoid a Huawei 5G situation in the future, where defensive tools have become necessary due to PRC market dominance. Together, the EU and US can get ahead of the technology risks and pickles when it comes to reliance on the PRC that we face today.

Recommendations for Congress

Finally, I offer seven recommendations for U.S. Congress to enhance transatlantic technology competitiveness vis-à-vis China:

- 1) *Invest in the TTC for semi-permanence*: Congress should consider building a line-item into the State and Foreign Operations budget to support the TTC over a 5-10 year timescale. Connective tissue is important, and bureaucratic mechanisms take time and effort to stand up and to build trust. Congress can help insulate this mechanism from changing political winds in the United States, while providing the means for its strategic evolution and adaptation over time.
- 2) *Improve joint PRC tech analysis*: Build a US-EU joint analysis center to quantify and qualify technology leakage to the PRC. This effort should include sharing and studying the scope of CCP intellectual property theft in critical technology sectors.
- 3) *Coordinate on outbound investment screening*: While discussions on outbound investment screening are further ahead in the US, aligning approaches and critical technology sectors with Europe can help drive allied competitiveness.
- 4) *Develop a new export control regime* for critical and emerging technologies that includes a strong consideration of human rights abuses.

- 5) *Lead by example on autocratic apps:* Develop a comprehensive, risk-based framework for addressing the threats posed by autocratic internet apps and critical information infrastructure. Lead a small international coalition to co-develop and adopt similar frameworks, including by raising the issue in IPAC.
- 6) *Consider areas for alignment with the EU on AI regulation:* As the US builds out its own AI regulatory efforts, it should identify areas where a common allied approach can provide a distinct, high-standards democratic offer to third countries.
- 7) *Invest in responsible AI:* Support the transatlantic adoption of content authenticity frameworks, as well as other democracy-affirming technologies, such as privacy-preserving AI.

Thank you for your time and I look forward to your questions.

**OPENING STATEMENT OF TIM RÜHLIG, SENIOR RESEARCH FELLOW,
GERMAN COUNCIL ON FOREIGN RELATIONS**

COMMISSIONER FRIEDBERG: Thank you very much. Dr. Rühlig.

DR. RÜHLIG: Thank you very much for the opportunity to testify today to the Commission.

China's technological power poses enormous risks to both the United States and the European Union, which is why I think we have put de-risking at the core of our strategy both here in the United States but also over in Europe. But despite this general alignment, not least of on language, I think we are still in the process of agreeing and finding agreement on at least three core questions.

These three core questions are, what is our desired objective in our policy towards China? Second, what are the technology risks that we need to mitigate? And the third is, what do we need to concretely do? And in my testimony here today, I will try to elaborate on these three questions with reference to technical standards. That's the questions that you have sent to me. It seems like a nerdy topic, but I mean, we are really surrounded by technical standards. Some have even made it into our everyday language, like 5G, Wi-Fi, USB. We're all using those terms without sort of thinking about it. So I'm really grateful that you put up this subject that seems to be really nerdy and niche.

So, first, what is our desired objective? And I think, sort of broadly speaking, there could be two answers to that question. One is, of course, that China should abide by rules and institutions. So we should sort of make China comply. The second, of course, is here that the systemic differences that exist in our economic and political system with China are so impactful that we actually have no choice but try to limit China's influence on the global stage.

I think there's good reasons for both of these perspectives to make. I don't view them as mutually contradicting but rather sort of as the two extremes on a continuum that we always need to figure out where to place. Let me illustrate that with a reference to technical standard setting. On the one hand, of course, technical standards require a broad acceptance of the market. So, if you develop -- I don't know -- USB and no one is using it, then the technical standard is not effective. It may exist on paper, but there's no power to it.

So technical standardization is always about consensus building, and that somewhat, of course, includes also the Chinese. So standardization follows an inclusive rather than exclusive logic of action.

But on the other hand, we are without doubt in a systemic competition with China over their approach to technical standardization. In China, standardization is very crucially and decisively shaped by party-state actors, while despite all differences across the Atlantic, we both believe that the private sector should actually set technical standards.

Also, for China, standardization is a matter of industrial policymaking, while we at least ideally believe that it should be the technical merit that's actually shaping standard-setting. So that leaves us with, on the one hand, that we need to try to defend the existing private sector led and inclusive approach but at the same time step up to the party-state's political objectives. So China should play by the rules, but also, we want to limit the politicizing influence of China on standard-setting.

To sort of grapple with that dilemma in our approach, I think it is good to look at the other two questions, the -- what are the risks, and what should we concretely do? So, to

adequately navigate this dilemma, we need to differentiate, I think, four sets of very different risks.

The first set of risks is to supply chain security. China is deeply embedded in global technology value chains, and geopolitical conflict could really cause unprecedented supply chain disruptions far beyond what we've seen during the pandemic. And standards can actually help mitigate some of those risks because they create interoperability and thereby enable and ease diversification.

That's only the case if standards are effective as global standards. So the alternative is, of course, that we see a fragmentation of standard-setting that could then lead into lock-in dependencies. And part of this is what we're seeing with China's strategy in the Belt and Road Initiative, that infrastructure investments are actually then creating spheres of technological influence and thereby also lock-in effects.

So what should we do? I think the U.S. and the EU, in sort of the context of the G7, should really bind infrastructure investments to international standards. Another concrete thing we can do is, I think, agree on concrete standards to promote them to be accepted internationally. One of the best practices that we have recently seen -- it may be just a small example, but we could expand on that -- is the megawatt charging standard that the TTC has agreed upon just a few weeks ago in Lilium, Sweden, in the last TTC.

The second set of risks relate to national security, and obviously, Chinese firms are deeply intertwined with the party-state. They're required by law to cooperate with Chinese intelligence. That implies that using Chinese technology, not least in critical infrastructure, can of course cause major national security ramifications.

So standards can, again, help somewhat mitigate those risks if they are developed in an inclusive and transparent manner in sort of an international peer-review process. Hiding security flaws from international peer review is not impossible, but it's more difficult than proprietary technology.

So what shall we do? NATO could set up a security review mechanism to actually spot the technical standards that are most relevant for our national security and make sure that these are developed in trustworthy institutions. What do I mean by trustworthy institutions? I think we could sort of lay out procedural criteria that we then test in a stress test certification and make sure that we have adequate personnel from states from both sides of the Atlantic present in those institutions.

The third set of risks is normative risks. Technology is never value neutral, and innovation leadership of Chinese actors can of course undercut fundamental values such as privacy. Standards can be particularly effective in discreetly spreading those norms enshrined in technology, so we need to build safeguards that effectively limit China's influence where they could be particularly harmful to our norms and values.

What could we do? I mean, we definitely need to increase our personnel in the relevant institutions that are technically capable without commercial interest in China because then you're freer to actually push back against Chinese proposals. That will require budgetary efforts to have either public actors or civil society actors with the technical knowledge on the ground to actually help push against China.

And the fourth and final risk here is that of competitiveness. Of course, Chinese technology firms profit from massive state support. We are facing an uneven playing field, and standards do play a role here because ICT standards are increasingly patented. So holding so-

called standard essential patents will have enormous participatory effects for the involved companies, and that also implies that we need to influence pricing.

What can we do? Skillfully and coordinatively interlinking standards and regulation across the Atlantic can help to actually strengthen the standards that we prefer and its underlying patents, and we should also coordinate our pressure on China that tries to get control over standard essential patent pricing.

To conclude, I think the risks that I've just laid out are very different in nature. At times, the goal is to contain China's influence. In other cases, it is about keeping China within the system, complying and avoiding fragmentation.

So what we need to do in all our policy is it needs to be multifaceted, and we need to always be explicit about the risks that we strive to address because they are very different, and also be clear about the policy objective. I leave it here and look forward to your questions. Thank you for the attention. I'm always happy to not just reply to questions on standards but also the broader picture. Thank you.

**PREPARED STATEMENT OF TIM RÜHLIG, SENIOR RESEARCH FELLOW,
GERMAN COUNCIL ON FOREIGN RELATIONS**

Transatlantic tech de-risking from China: The case of technical standard-setting

15 June 2023

Dr. Tim Nicholas Rühlig, German Council on Foreign Relations

Testimony before the U.S.-China Economic Security Review Commission

Hearing on “Europe, the United States and Relations with China: Convergence or Divergence?”

Panel II: Technology, Standards/Data, and Trade

Introduction: identifying tech risk profiles

- In adapting to the geopolitical risks that stem from deep technological engagement with China, both transatlantic partners should pursue a de-risking strategy that differentiates between and takes account of at least four risk dimensions: risks to global supply chain resilience, risks to national security, risks to normative aspirations and risks to competitiveness.
- Technical standardization, although not usually a subject of geopolitical contestation, is an important factor in all three risk dimensions.

The United States and the People’s Republic of China (PRC) have entered an era of strong competition for global power. At the heart of this power rivalry is a struggle over technology leadership in several strategic technologies, notably wireless infrastructure, semiconductors, Artificial Intelligence (AI), the Internet of Things (IoT), quantum technologies and blockchain. The underlying assumption is that command of these technologies is vital to national competitiveness, national security and the ability to shape global affairs. In 2016, the Central Committee of the Chinese Communist Party (CCP) and the State Council summarized this when stating that “the emergence of disruptive technologies is reshaping global competition and the balance of power. [...] Our nation has a rare historic opportunity to catch up and leapfrog ahead but is also confronting the severe challenge of a widening technological gap”.¹ This international technology competition is not least about the ability to set the technical norms that create interoperability and enable the integration of highly complex technologies into global value chains. In other words, it is a competition over setting technical standards and controlling their underlying intellectual property (IP).²

The European Union (EU) and its member states cannot stand idly by as China’s footprint grows in disruptive technologies and international technical standardization. Europe is concerned not only that it could suffer a loss of its substantial influence on global standard-setting, but also that the politicization of technical standardization and a fragmentation of technical standards could undermine European interests.³ A comparison of recently published EU and the US technical standardization strategies illustrates that both transatlantic partners share these concerns.⁴

Gone might be the days when increasing interdependence and globalization were interpreted as irreversible.⁵ Concerned about Western influence, China is promoting indigenous innovation and technological self-reliance under its paramount leader Xi Jinping and his “dual circulation” policy. While the idea of technological decoupling has emerged from China, it has also been the subject of discussions on both sides of the Atlantic. European Commission President Ursula von der Leyen has made clear,

however, that the EU is not aiming to decouple from China but striving to reduce the strategic risks that result from economic and technological reliance on the PRC.⁶ This allows technological cooperation and economic interaction to continue while increasing European resilience to looming risks. Such “de-risking” has found widespread support in Europe.⁷ It has also been picked up by the US administration.⁸ Europe’s commitment to de-risking instead of decoupling is understandable not least in light of the enormous costs of various decoupling scenarios that would have a far more damaging impact on Europe than on the US.⁹

While neither the US nor the EU has a clearly identified, concrete risk profile—the EU is currently working on an economic security strategy that should provide a classification—any such approach should differentiate between at least four types of risk:¹⁰

1. *Risks to global supply chain resilience:* The global value chains of many, if not all, emerging and foundational technologies are characterized by a transnational division of labor. No region is in control of all production steps or its supplier markets. Thus, to strengthen security of supply it will be necessary to strengthen the resilience of global value chains in order to reduce second- and third-order negative impacts on EU and US industries in case of supply disruptions. Strategies to strengthen resilience vary greatly between specific global value chains, such as semiconductors, batteries or quantum computing, depending on their individual characteristics.
2. *Risks to national security:* Failure to reduce strategic dependency or loss of strategic capacity might have (in)direct negative impacts on national security. Of the four dimensions, assessing the potential impact on national security is the one with which policymakers are traditionally the most familiar. However, strategic dependencies in foundational technologies, such as semiconductors, or general-purpose technologies, such as AI, might have an indirect impact on national security. The national security risks that stem from dependence on Chinese mobile network equipment vendors are different from the national security risks to member states that rely heavily on drones, surveillance cameras or AI chips from Chinese vendors. Some of these risks can be mitigated at the technical level, while others come down to the trustworthiness of the technology provider.
3. *Risks to normative aspirations:* Strategic dependency or technology cooperation can also conflict with values. Like implementation of export restrictions to protect human rights, strategic dependency can also be scrutinized according to the human rights violations that such technology would enable. One example is the increased scrutiny of Hikvision surveillance cameras in Europe and the company’s ban in the US due to its involvement in human rights violations against Uyghurs in the PRC.¹¹ Thus, reducing dependency on Chinese surveillance cameras could be based on European values rather than solely national security concerns. Similarly, sustainability is a growing concern in which emerging and foundational technologies play an increasingly important role. While all sides emphasize its importance, the priority attributed and approaches to sustainability vary, which has implications for global goods such as combating climate change.
4. *Risks to competitiveness:* Europe might invest in strategic capacities or try to reduce strategic dependencies to be able to compete internationally in the long term if a certain technology or market is deemed highly important in the future. Current examples include European investments in quantum computing and photonics. The Dutch government, for example, has invested heavily in the PhotonDelta consortium to strengthen the long-term competitiveness of its domestic photonics ecosystem.¹² In light of the intensifying US-China technological rivalry, government incentives to support the technological competitiveness of a specific domestic industry or technology provider can also be motivated by maintaining “strategic indispensability”; that is, ensuring that a company continues to play an indispensable role in the

global value chains in the long term.¹³ Technological competitiveness therefore creates geopolitical leverage.

Once risks have been defined, the EU and the US will have to weigh the risks of disengaging from Chinese technology, which comes with costs. Based on this risk assessment and cost calculations, concrete instruments will need to be adopted to tackle specific risks.

How such strategies on adaptation to the ongoing “weaponization of interdependence” (Farrell/Newman)¹⁴ might shape technical standardization, a central field of tech competition, is less obvious than one might think. To those who have set technical standards for decades, the assumption that technical standards are an integral part of a power competition is anything but a given. If one considers what a technical standard is, how it is developed and by whom it is established, the use of standards for power purposes is indeed counterintuitive. Standards have always been a subject of competition, but in essence technical standards are non-binding private self-regulation over which commercial competition exists, but which require broad market acceptance. In other words, a minimum degree of cooperation and inclusion is essential for technical standards to be effective.

It is possible to argue that technical standards could be treated as a metric for the innovation of an economic entity. From this perspective, the study of technical standards is a proxy for measuring the technological innovativeness of a country. If one further assumes that technological leadership is in itself a crucial source of state power, advances in technical standards indicate state power. However, technical standard-setting is treated as far more than a proxy for technological strength. Instead, technical standards are central to all four of the risk dimensions outlined above.

In providing answers to the questions of the US-China Economic Security Review Commission (USCC), this written testimony first lays out the current practice of international standard-setting, which is shaped by US and European systems. This is compared with China’s strategic, state-centric approach to technical standard-setting. Next, China’s engagement in international standardization is discussed. This includes an assessment of China’s practices and its limited international successes. The testimony then returns to the four risks outlined above to explain how the role of technical standardization is crucial, and in what ways China’s state-centric approach presents a challenge for the transatlantic partners. The testimony closes with policy recommendations.

Ideal type and current practice: Transatlantic on standard-setting

- Despite significant differences in their respective systems, commonalities in transatlantic standardization practices have shaped international standard-setting.
- Practice might differ, but the ideal type of standardization as a form of private, non-binding, inclusive and technology-focused specification for a common purpose has served global standard-setting well for many decades.

Geopolitical discussions around technical standard-setting are in stark contrast to the ideal-type perception of standardization that has had enormous utility and long served international standardization. This ideal type that has been largely shaped by the standardization practice and standardization influence of Europe and the United States is characterized by several features:

- *Standards are highly technical and serve common purposes not political goals:* Standards are highly technical documents whose political relevance is not eye-catching. Technical standards are omnipresent product specifications that generate basic safety and interoperability. For example, USB is a standard for cables, connectors and protocols that enables charging and the exchange of data on a wide range of devices. Similarly, Wi-Fi is a family of radio technologies built on technical standards that allow for wireless local area networking of a wide range

of technological equipment. Technical standards allow products of all kinds to be applicable in a wide range of contexts across countries and manufacturers. Without technical standards, the technologies of two suppliers would not be complementary. Technical standards create markets and thereby facilitate international trade. Standards also have a positive effect on economic growth and innovation.¹⁵ Technical standards help to scale-up innovations and reduce costs. To the extent that technical standards create larger market scope, they also generate larger revenue streams that are available for investment in innovation. Standardization is also conducive to diversification as standards increase the interoperability of products from different suppliers, which makes subcontracting easier.

- *Technical standards are voluntary and consensual:* Technical standards are voluntary technical specifications. They carry enormous commercial force. Products that do not comply with technical standards work only in isolation and not in concert with other products. In an increasingly interconnected world of products, they run the risk of capturing only niche markets. Nonetheless, technical standards are voluntary by definition. For example, the World Trade Organization's (WTO) Agreement on Technical Barriers to Trade (TBT Agreement) defines a standard as a "document approved by a recognized body, that provides, for common and repeated use, rules, guidelines or characteristics for products or related processes and production methods, with which compliance is not mandatory".¹⁶ Furthermore, technical standards are an unlikely candidate for domination as many national, regional and international standards are adopted on a consensus basis. Two European standardization organizations, the European Committee for Standardization (CEN) and the European Committee for Electrotechnical Standardization (CENELEC), include consensus in their definition of a standard.¹⁷
- *Standards are inclusionary:* Technical standardization follows an inherently inclusionary logic. Technical standards aim to harmonize products and technologies. In sharp contrast to intellectual property rights and patents, a good standard is available and accepted globally.¹⁸ Where technical standards consist of patented technologies, patent holders are obliged to license their patents under fair, reasonable and non-discriminatory terms (FRAND). Courts around the globe are enforcing FRAND terms on patent holders. In contrast to the other means of global technology competition, such as export controls or punitive tariffs, technical standards are not intended to exclude competitors. It is true that technical standards can create barriers to market access if they deviate from international norms.¹⁹ Standards can also further cement monopolization, opt for and lock-in to premature technology choices.²⁰ However, by their very nature, standards are designed to provide an inclusionary basis that facilitates competition.
- *Standards are developed by private sector not public sector actors:* Technical standards are non-binding and a form of private sector self-regulation. Formal technical standards are developed in standard-developing organizations (SDOs) that overwhelmingly consist of representatives of private industry. Global industry consortia developing technical standards for information and communication technologies (ICT), for example, predominantly consist of vendors and other commercial entities. These make up 93.6% of participants, followed by consumer groups (3.8%) and university and research institutions (2.5%). Government agencies comprise just 0.2% of participants.²¹ Even when technical standardization is interpreted as a form of "hybrid" authority that includes both private and public sector actors, the empowerment of private sector actors is at the core.²² SDOs exist at the national, regional and international levels. De facto standards are the result of market dominance by one or just a few technology suppliers of a product that is of cross-cutting importance.²³ For example, Windows and Apple dominate the global market for operating systems and a wide range of

software products needs to be compatible with Windows and iOS to avoid becoming a niche product.

Granted, technical standardization practice does not fully conform to this ideal type. As one standardization expert has put it: “How do standards impact our ability to compete internationally? What is needed is that our domestic standards experts aggressively participate in international standards development to get domestic standards accepted. The first to propose a standard for adoption at the international level will most likely succeed. Thus, it is necessary to get to the international arena ahead of standards experts from other countries”.²⁴ In other words, standardization practice has always been more competitive than the ideal type’s focus on cooperative self-regulation might suggest. However, the fact that, in the absence of a systemic competitor, the EU and the US as the most influential standardization powers have approached standard-setting as a non-binding form of private sector self-regulation has shaped the international standardization system.

While technical standard-setting is driven by private sector actors in both the US and the EU, their approaches differ substantially. The European standard-setting system is a private sector-driven public private partnership, in which the technical standards of private SDOs support economic integration, innovation and competition within the European Single Market, as well as European regulation. Three characteristics define the European approach.²⁵ First, technical standards are developed by private standardization bodies. The state is involved only insofar as it identifies a few organizations as national standard bodies (NSBs) at EU member state level and three European Standardization Organizations (ESOs) at the EU level to develop technical standards. Technical standards can be developed outside of this system, but in practice the technical standards developed by NSBs and ESOs are by far the most influential.

Second, technical standardization is hierarchically structured within this system of NSBs and ESOs. If a technical standardization issued nationally contradicts a technical standard developed at the European level, the national standard is automatically invalidated. The European standardization bodies CEN and CENELEC have codified their close coordination with two international standardization bodies, the International Standardization Organization (ISO) and the International Electrotechnical Commission (IEC), in two agreements.²⁶ The third ESO, the European Telecommunications Standards Institute (ETSI), is one of only seven organizational partners of its global equivalent, the Third Generation Partnership Project (3GPP), and is therefore also closely interwoven with global standardization.

Third, technical standards can support regulation. Technical standards can be referenced in regulations as a method of implementing the requirements of that regulation, carrying the presumption of conformity. The European Commission can request the development of technical standards where it sees a need for technical specifications on the implementation of its regulations. The development of such technical standards, known as harmonized European Norms (hENs), is not mandatory.

In some regards, the US approach to technical standardization is even more market-driven. While the EU follows the principle of “one standard, one test, accepted everywhere”, the US cherishes what could be summarized as a “blossoming of solutions”. Most fundamentally, in the US, a number of competing consortia are developing technical standards in any given economic sector. Almost 300 SDOs are accredited. The result is a competition of overlapping and potentially mutually contradictory technical standards; and it is left to the market to pick the winning technical standards. That is not to say that demand plays no role at all in Europe. Technical standards are voluntary and if the licensed technical standardization bodies do not develop technical standards that conform to the needs of the market, the likelihood is that their practical relevance will be low.

In ISO and IEC, the US is represented by the American National Standards Institute (ANSI). ANSI, however, has no authority over the multitude of national standardization bodies. In fact, many US

standardization bodies consider themselves international if some of their members are international companies. Hence, the US does not accept ISO and IEC as a priority compared to what appear from a European viewpoint to be domestic standardization organizations with international participants.

Despite its generally market-driven approach, the US will spend \$ 1.24 billion in 2023 for the National Institute of Standards and Technology (NIST) to conduct research and promote US standardization.²⁷ Europe does not possess an equivalent. Hence, in some way, the US system is more state-led European's.

Ideal type practice of standardization shaped by the commonalities and differences of transatlantic approaches has served international standard-setting well. China's standardization system and practice shows similarities but is also characterized by different features.

Systemic competition: China's state-centric technical standardization approach

- Recent reforms have transformed China's standardization approach from being state-controlled to being state-centric. China's technical standard-setting still deviates significantly from the ideal type and transatlantic and international standardization practices.
- Party-state actors play a significant role in standardization, and standard-setting is closely embedded in Chinese strategic political ambitions.
- Underlying this is a fundamentally different understanding of technical standards as a means of implementing industrial policy that improves product quality and supports China's move up the global value chain.

To assess China's role in and impact on international standardization requires an understanding of China's domestic standard-setting approach. At least if compared to the ideal type, China's state-centric technical standardization system stands out in sharp contrast. A number of documents and statements provide evidence of the strategic importance that the PRC political leadership attributes to technical standardization. Setting the technological rules, including on technical standards, is explicitly integrated into political ambitions to shape international affairs.²⁸ In 2020, for example, Shu Yinbiao, a leading Chinese technical standardization official, argued that the ability to shape international technical standard-setting is a reflection of a nation's power and competitiveness.²⁹ Similarly, technical standardization has been an integral part of macro-economic planning in the PRC for quite some time.³⁰

In recent years, China has made tremendous changes to its domestic standardization system and managed to increase its international influence. For decades, technical standards had been developed by public- and private sector actors, but only within state institutions under national ministries or local governments. Many of these standards were not voluntary but mandatory, and thereby not even technical standards according to the WTO definition. In a nutshell, technical standard-setting in China was state controlled.

Following informal consultations in 2014, China launched a standardization reform on March 11, 2015,³¹ which has been gradually implemented in the intervening years.³² At the core of the reform is the new Standardization Law, which took effect on January 1, 2018,³³ replacing the previous law from 1989. The most impactful of several changes has been the introduction of a market-tier and the reorganization of the Chinese standardization system from state-controlled to state-centric.

Since 2018, the PRC system has comprised five types of standards (see Figure 1). The state-tier continues to be national, sector and local standards developed under the umbrella of state institutions; national standards can still be mandatory or voluntary but the number of mandatory standards has

been cut by around 75%.³⁴ All local standards and the overwhelming majority of sector standards are now voluntary.

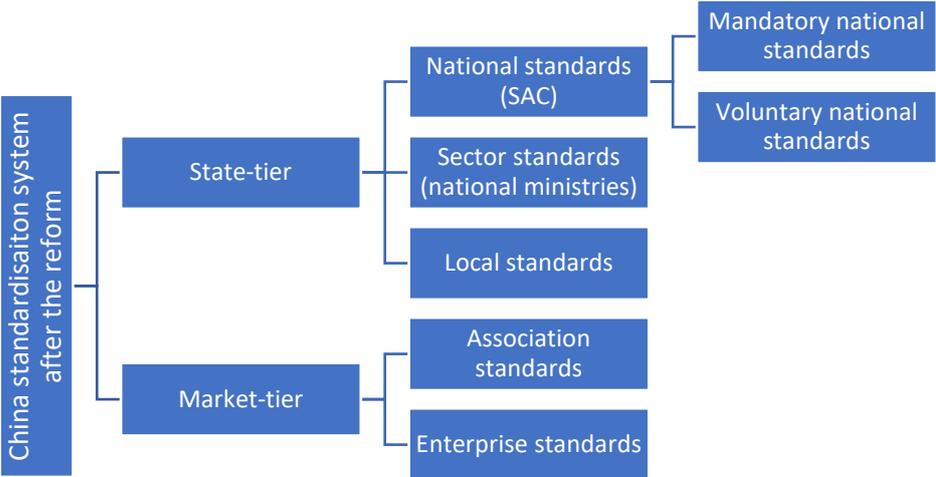
National and sector standards are developed in Technical Committees (TCs), Sub-Committees (SCs) and Working Groups (WGs), with members from privately and state-owned enterprises, research institutions, think tanks, state regulators, consumer organizations, testing and certifying entities, and industry associations. China's technical standardization work involves both civilian organizations and the defense sector.³⁵ While this generally resembles international standardization practices, development of these standards is carried out under the framework of state ministries.³⁶ In many cases, research institutes that are an integral part of these national ministries host the secretariats of the TCs, SCs and WGs.

The new market-tier sets two types of standards. Association standards are issued by a rapidly growing number of competing industry associations. Since their introduction, association standards have become the most dynamic standard type in China. In contrast to state-tier standards, association standards are supposed to be fully autonomous of party-state influence. Associations do not require a license to develop such standards. All private entities in China with the status of an NGO, acquired from the Ministry of Civil Affairs under the Chinese State Council are all encouraged to develop technical association standards. On paper, this provides very little party-state control over the development of association standards. However, European and Chinese practitioners alike report in private conversations that there is party-state steering of association standardization. For example, association standards have increased force when referenced in national regulation or are a response to a request for standard-setting by party-state institutions, or if developed by an industry association to which the party-state had granted a license to do so in the pilot period before 2018. In other words, a multitude of associations may be developing technical standards in China, but party-state endorsement is what increases their impact. In addition, there are plenty of reports of informal guidance from party-state institutions encouraging private industry associations to develop certain technical standards.³⁷

The fifth and final standard type is enterprise standards, which are specifications developed by individual companies. Unless these achieve the informal status of a de facto standard, enterprise standards only apply within a given company. Party-state interest in and influence over enterprise standardization is limited, but even enterprise standards are not completely free from party-state oversight and guidance. Enterprises are encouraged to declare their enterprise standards with the state authorities, thereby providing public agencies with a better overview of product characteristics.

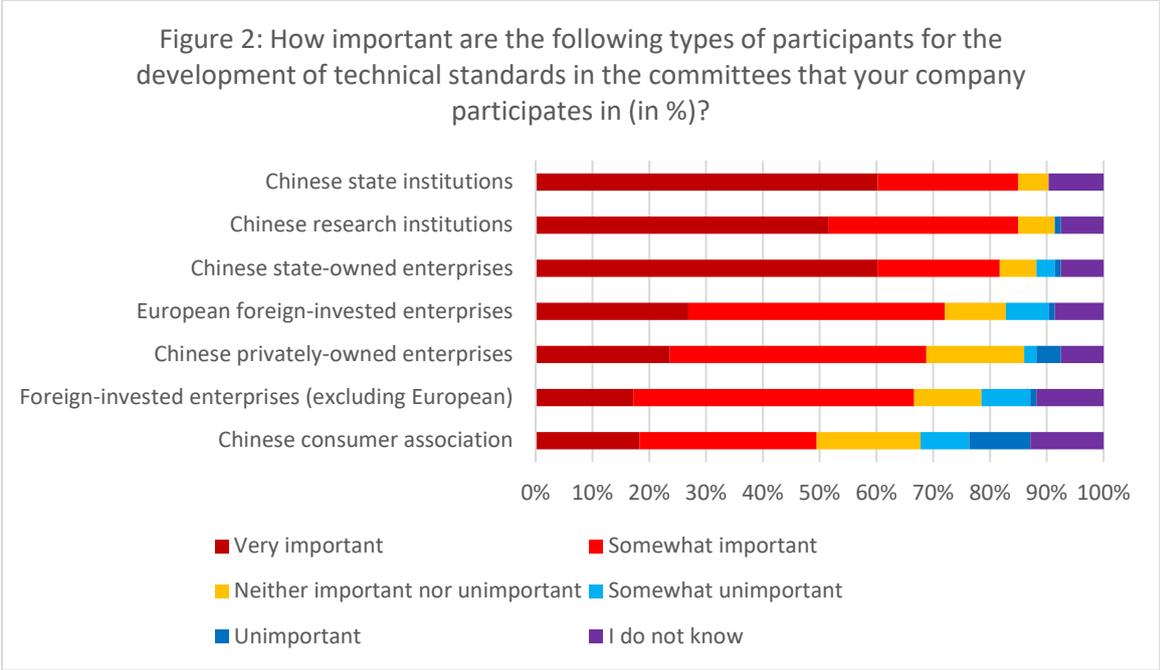
Party-state guidance on enterprise standards is mostly exercised through a national competitive 'top runner / front runner' system initiated in 2018, which awards prizes to those standards considered the best by the party-state.³⁸ The system is refined every year, and both national and regional systems coexist. This tool provides party-state authorities with the ability to use industry-driven standardization in its industrial policy and maintain a guidance function, even in supposedly market- and industry-driven sections of the technical standardization system. Several of the practices of party-state engagement with steering effects discussed below help the party-state to shape domestic standard-setting.

Figure 1: China’s two-tier standardization system since reform



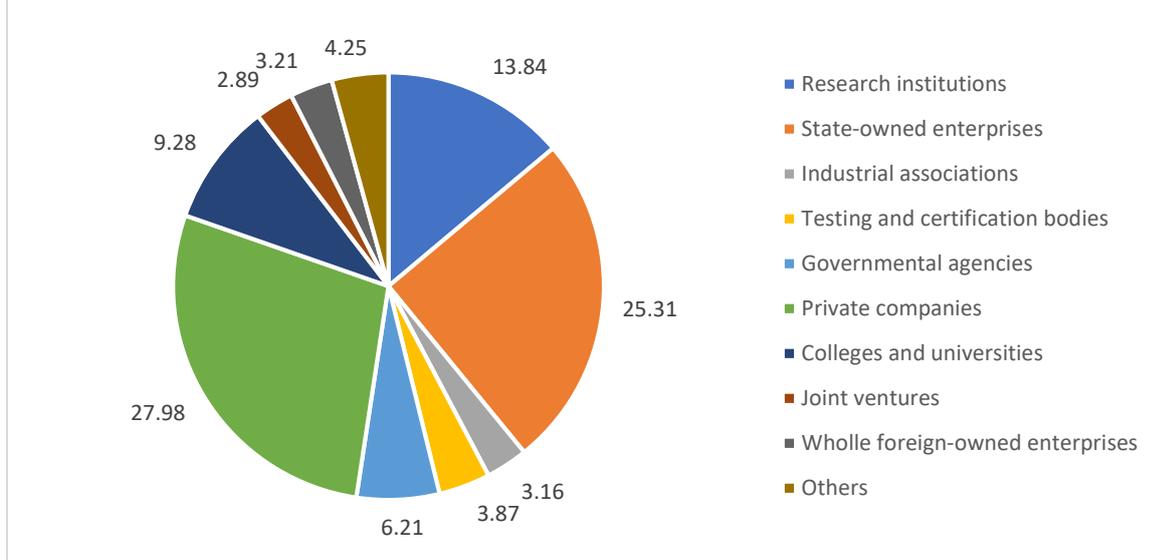
Source: Own graphic

Given the changing but persistently strong role of the party-state in technical standard-setting, it is little wonder that European businesses engaged in domestic standard setting in China identify state institutions as the most impactful (see Figure 2). Chinese research institutions, ranked second, are often an integral part of national ministries. China’s state-owned enterprises (SOEs) are named as having the third largest impact on technical standard setting in China, well ahead of private and foreign invested companies.³⁹



Although not displaying quite the same level of dominance, statistics on standardization experts registered in China also demonstrate that party-state actors play an important role. Privately owned Chinese companies employ less than 28% of the registered experts. Joint ventures and fully foreign-owned companies have a combined share of only slightly more than 6% (see Figure 3).⁴⁰

Figure 3: Employers of registered standardization experts in China



The steering role of the party-state is rooted in a fundamentally different understanding of technical standardization in China. For the Chinese party-state, technical standards are a means of implementing industrial policy. To some extent, domestic standards can serve as technical barriers to trade for protectionist purposes, although this was more the case in the past. Today, technical standardization has primarily become a means for industrial policy to facilitate improvement of product quality and China’s move up the global value chain.

China is undergoing an economic transformation with the aim of mitigating lower growth rates (the ‘new normal’) and avoiding the middle-income trap.⁴¹ With hardly any urbanization potential left, China is striving to compete not on low labor costs, but on quality and innovation, which further increases the focus on standardization.⁴²

All in all, China’s standardization reform has aligned the PRC’s standardization more closely with the ideal type and practice of international standard-setting, which is substantially shaped by transatlantic actors. However, even after the reform, China’s approach remains state-centric and deviates from the existing international system. Accordingly, while foreign-invested businesses have profited from recent reforms they continue to face discrimination.⁴³

State-centric technical standardization in China: A strategic choice

China’s state-centric approach to technical standardization is by no means accidental but reflective of the strategic importance attributed to it. In March 2021, the National People’s Congress adopted the 14th Five-Year Plan (FYP). Technical standards are mentioned in some form or another in around a quarter of all its chapters, indicating the high priority that China gives to technical standard setting.⁴⁴ Equally, the 14th FYP for National Informatization makes reference to standard-setting throughout the discussion of the technologies covered.⁴⁵ However, while the strategic value China attributes to standardization is clear, the National Standardization Outline published by the CCP Central Committee together with the State Council in October 2021 is more important.⁴⁶ The Outline was followed by a specific Five-Year Plan on technical standardization.⁴⁷

The Outline characterizes technical standards as central to China’s economic transformation. The PRC is explicit that it will increase the citation of standards in regulations, certification, accreditation and

public procurement, thereby linking technical standards more closely to legally binding policy. The application of standards will also be broadened to China's governance system and, for the first time, will include administrative management and social governance.

The Outline demonstrates a further shift in China's ambition. Standardization is not just seen in a domestic context. Equal weight is given to international standard setting. This includes the allocation of more resources, an ambition to invite international professional standards organizations to base themselves in China (in a similar way to industry consortia based in the US) and the aim that technical standards should help the PRC to increase supply chain security. China's international standardization ambitions are coupled with a commitment to increase synchronization of international and Chinese standards. The Outline speaks of an adoption rate of 85% of international standards, but such an ambition appears to be far from reality (see below).

The Outline announces improved cooperation with the ISO and sets the goal of increasing international cooperation with countries along the Belt and Road Initiative (BRI), the BRICS (Brazil, Russian, India, China and South Africa) and the Asia-Pacific Economic Cooperation (APEC). This could be interpreted as an attempt to internationalize Chinese technical standards.

Domestically, China is committed to increasing the openness of its standard-setting system to foreign-invested enterprises as promised in the Foreign Investment Law (FIL).⁴⁸ The Outline identifies a number of economic sectors as being of strategic priority for China's standardization activities: digital (AI, wireless networks, big data, blockchain and quantum technologies); mobility, such as smart ships, high-speed rail and new energy vehicles; green transformation, including energy efficiency and renewable energies; health; finance; trade, including e-commerce; construction; rural development; and urbanization.

The Outline also emphasizes the importance of the market-tier standards, primarily association standards. The dual system of state- and market-tier standardization will remain in place. The CCP is committed to strengthening the market-tier but has also emphasized that its leadership and coordination of the party-state institutions will persist. Other reforms include the ambition to shorten the time frame for developing standards to less than 18 months, digitalize standardization, strengthen standardization research and improve the governance of standard-essential patents (SEPs) and IP protection.

The Outline was developed in response to a recommendation by a broad research project known as China Standards 2035 (CS2035), which garnered wide attention and speculation. Some western observers have characterized CS2035 as a new 'masterplan' following on from the China's Made in China 2025 strategy.⁴⁹ Others are skeptical of such an interpretation,⁵⁰ referring to the cooperative nature of technical standardization, which makes it difficult to dominate standard setting.⁵¹

Some of the results of CS2035 were deemed controversial within the Chinese party-state and some of its recommendations did not make it into the national technical standardization strategy. However, this does not make those recommendations irrelevant to China's future standard setting approach. Instead, they should be regarded as not yet having achieved consensus, and whether they will be implemented in the future remains to be seen. Initiated as a research project by the SAC and the Chinese Academy of Engineering, CS2035 was a tool for pushing further standardization reform in China. The fact that some of the recommendations, such as a reduction to only two types of standards, were not included in the Outline is illustrative that there are different visions for the future development of China's technical standardization system within the PRC.

Of particular interest is CS2035's proposal to establish a BRI Regional Standards Forum.⁵² This proposal, which did not make it into the Outline, could have led to a new institution being registered as an NGO open to technical standardization experts from BRI countries. This Forum would have not only facilitated coordination among its members in preparation for standardization in the ISO and the IEC, but also developed BRI regional standards. This would have become an alternative institution, undermining existing standardization organizations. It remains to be seen whether the idea will resurface.

All these documents, initiatives and statements give a clear indication that technical standard-setting is of strategic and political relevance for China. The PRC's leadership strives to leverage technical standards for technological upgrading, as well as to reinforce national comprehensive competitiveness, advance economic development and support technological innovation. Internationally, China strives to secure supply chains and create global and regional markets for its products, and thereby also generate lock-in dependencies. Implicitly, technical standardization could also serve China's national security.

China's international standardization activities

- The PRC has adopted seven established standardization practices of US and EU actors but amended them to the conditions of its state-centric approach to standard-setting. The result is competing standardization systems.
- China's influence on international standardization has grown but varies greatly across SDOs and sectors. The PRC has not achieved a dominant position.
- The BRI is a crucial vehicle for the spread of de facto standards. This is by far the most concerning development for the transatlantic partners.
- Robust institutions limit China's influence on formal European standardization. In reaction to concerns about growing Chinese influence in ETSI, the EU controversially amended the standardization regulation. This has been strongly criticized by US companies.
- Any assessment of strategies to limit Chinese influence must consider alternative scenarios, in which China might exercise its objectively existing standard influence outside existing SDOs.
- China's adoption ratio of international standards does not match its declared ambitions.

The PRC's influence on technical standard-setting has increased significantly. This is a natural reflection of its strong level of innovativeness and is neither surprising nor alarming as such. However, just as in its domestic reform, China has selectively adopted best practices from the West and combined these with the characteristics of its own party-state permeated economy. The result is a systemic competition between different approaches to standardization. Strikingly, seven of the most important practices supporting China's international standardization influence are not markedly different from Western standardization. However, the PRC has adapted these practices to its state-centric approach, thereby externalizing its domestic standardization.⁵³ Four of these practices apply mostly in formal standardization; another three are central to the spread of Chinese de facto standards:

- *Increasing technical expertise:* Technical standardization is the result of meetings and discussions among engineers. Hence, technical expertise is a crucial prerequisite for influencing standard setting. Ideally, technical merit is the sole criterion for standard-setting. Technological innovation is the result of research and development (R&D). In both Europe and the United States, public funds are vital, particularly for basic research, but most of the innovation that reaches the level of maturity to be subject to standard setting is industrial. The PRC has adopted a state-centric approach to catch up with technological innovation in

fields considered strategic. Industrial policies connected to 'Made in China 2025' have been accompanied by additional state funding, allowing China to spend 2.2% of its GDP on R&D in 2019. One example is Huawei, which has reportedly benefited massively from tax breaks, soft loans and export credits.⁵⁴ R&D investments alone do not result in innovativeness and the sums invested by Huawei and other Chinese tech companies might exaggerate technical capability. However, substantial R&D funding is a prerequisite for standardization.

Party-state support for innovation goes beyond public spending. As the author has argued elsewhere in more detail, five features have been decisive for China's growing innovativeness:⁵⁵ partial protection, allowing new technology trends from the West to be absorbed while protecting Chinese firms;⁵⁶ learning from Western innovation ecosystems, attracting talent back to China by such means as the party-state's Thousand Talents Program; targeted acquisition of missing technical expertise by legal (e.g., M&A) and illegal (e.g. cyberespionage) means, often using state funds; competition over innovation to attract party-state support but also to meet consumer demands; and party-state steering by means of Five-Year Plans without detailed planning, unleashing funds from the state-controlled financial sector for priority projects. Strikingly, the party-state is a central feature of all five of these features.

- *Exploiting first-mover advantage:* First-mover advantage is crucial for influencing standard setting because once established, international standards are slow to change. Cutting edge innovation is a precondition, but early demonstration of a technology's utility, proving the value of innovation in real-world conditions is also important. Hence, private sector industry aiming to set technical standards often strives for early commercialization of a certain technology to gain first-mover advantage. This is particularly effective in large markets such as the Chinese as market size can provide for testing under a greater variety of conditions; market size also has some force as it locks-in early commercial revenue for industry.

In China, early commercialization is also a core dimension of standard setting, but is not left to private sector industry. Instead, a central feature of the party-state's industrial policy has been to establish regulatory and financial conditions to facilitate early commercialization of key enabling technologies, such as 5G.⁵⁷ In 5G, for example, the PRC has sponsored the world's largest 5G trial area in the Yangtse River Delta,⁵⁸ and the state-controlled mobile operators have been instructed to roll out the most innovative version of 5G, known as standalone 5G. In both the EU and the US, by contrast, operators tend to opt for the less innovative update of 4G/LTE networks to non-standalone 5G because private sector industry has identified that this path requires less investment and is therefore more economical in the short and medium term.⁵⁹ In short, China's state-centric approach supports standardization by socializing the financial liability of early commercialization and technological trials.

Internationally, China is striving to gain first mover advantage by proposing new standardization items at an early stage and applying for technical leadership positions. To some extent, this is proving effective, but ultimately technical standardization is only positive, and quickly and widely accepted when many actors from several countries have an interest in a standard.

- *Supporting active participation in standardization bodies:* Having voting rights in SDOs requires active and regular contributions to standard development. Academic research has repeatedly emphasized the crucial importance of financial resources in this context.⁶⁰ In the US and in Europe, firms with stakes in standardization must meet this requirement with little if any state support, such as partial coverage of travel expenses. The most influential European SDO, the German DIN, receives around 10% of its budget from public authorities. The sale of standards and membership fees are the DIN's main sources of funding.

China, by contrast, adopts a state-centric approach to increasing engagement in formal international standardization. The party-state issues quantitative benchmarks and supports its ambitions with funding.⁶¹ This can be direct and indirect financial support. For example, many

municipalities offer stipends to Chinese firms if they develop technical standards. Such financial support is available for the development of national as well as international standards. In March 2022, Chaoyang District in Beijing offered payments for different standards. International standard contributions could be awarded by the local government with up to RMB 30,000.⁶² Examples from other parts of the country demonstrate that financial support can amount to as much as RMB 1 million.⁶³ China's quantitative approach can have distorting effects as it incentivizes split standard contributions, increasing the quantity but not the quality of the submissions. However, there are quantitative caps to standardization subsidies, which put some limits to such distortions.⁶⁴

- *Speaking with one voice:* Practitioners from all countries confirm that conflicts of interest among industry representatives from one country are the rule rather than the exception. At the same time, coordination to ensure that participants speak with one voice helps to establish support around a given standard proposal. In the EU and the US, such coordination is left to industry or to committees within private SDOs. While China's unity is often overestimated, the party-state actively facilitates coordination in fields of national priority. For example, in 2013 the PRC founded the IMT 2020 (5G) Promotion Group, which comprises Chinese public agencies (the Ministry for Industry and Information Technology, Ministry of Science and Technology and the National Development and Reform Commission), research institutes (Beijing University of Posts and Telecommunications) as well as all sorts of Chinese tech companies.⁶⁵ China regarded coordination within the group a success, so launched the IMT-2030 (6G) Promotion Group based on the organizational structure of the previous group in June 2019.⁶⁶ This is not to say that state institutions define standardization priorities, but they facilitate coordination within the country prior to engaging in international standardization. Standardization coordination can be particularly successful for a large economy like China's and is more effective in SDOs that do not operate on a one country, one vote basis. One example of coordinated voting is Huawei's Polar Code proposal in the Third Generation Partnership Project (3GPP).⁶⁷ A Chinese academic recalls this case of bloc voting at a meeting in Reno when, "almost all Chinese companies coordinated tacitly to support the polar code led by Huawei as a control channel coding standard. [...] This shows strong nationalism. While on the surface, the 5G international standard competition is a competition between technical solutions, at a deeper level, it is dominated by nationalism. [...] This is particularly obvious among Chinese companies".⁶⁸

Central coordination can further support the practice of forum shopping when a given standard contribution is rejected in one SDO and then put forward under different names in others. One such case is China's proposal for a new internet protocol that was first introduced and rejected at the International Engineering Task Force (IETF) before it was taken to the International Telecommunications Union (ITU) and later reappeared in some limited form in ETSI.

China's growing ability to shape international de facto standardization is also not the result of practices that are fundamentally different to those in the US and the EU, but rather a state-centric variant of existing approaches. This can be illustrated with reference to three influence factors:

- *Building large companies:* Large companies with a significant market share, such as Microsoft, were a prerequisite for setting de facto standards. This holds true for Chinese firms too. In China, however, the party-state proactively facilitates the creation of national champions. The reason may not be standardization power, but the policy is strengthening the PRC's ability to set technical standards. In recent years, the average size of SOEs has grown considerably.⁶⁹ For example, the current

structure of the state-controlled Chinese railway sector is the result of reforms. In 2013, the Ministry of Railways was dismantled and divided into the State Railway Administration (SRA) and the China Railways Corporation (CRC) under the Ministry of Transportation (MoT) and the National Development and Reform Commission (NDRC). The CRC is not a normal company but is responsible for railway development, pricing and infrastructure building. It performs a coordinating function in China's railway industry. This has implications for strategic R&D investment and standardization targets. China has not only established state control over manufacturing and the operation of the railway sector, but also directs the technological innovation and R&D required for standards development. At least 25 research universities, 11 research institutes and 51 national engineering and research centers with more than 10,000 researchers receive direct instructions from the party-state to achieve national goals. The CRC also has its own engineering and research branches: the China Railway Design Corporation (CRDC) and the China Academy of Railway Sciences (CARS).⁷⁰ This illustrates that some of China's large companies have enormous resources and coordinative competences that they can leverage for R&D – and ultimately also for their standardization influence. This is particularly effective where China possesses unmatched industrial capacity, such as in the telecommunications industry.

- *Strengthening international presence and package deals.* Domestic market dominance is not sufficient for setting de facto standards. The globalized world requires companies to compete with technological solutions from abroad. While export subsidies are a global phenomenon, China has adopted a distinctly state-centric approach to achieving international market presence in some critical sectors, particularly as part of the BRI in the infrastructure sector. China has promised to spend USD 1 trillion building new roads, railways and other infrastructure beyond its borders in the BRI.⁷¹

Again, the railway industry is a case in point. China is promoting the railway industry to export as part of the 'Made in China 2025' initiative. By 2020, the export quota had increased to 25% of the CRC's business. In the context of the BRI, the concept of the 'Railway Economic Belt' (REB) was established to boost both the buildout of railway infrastructure and the promotion of trade through the railways.⁷² China's "going out" strategy is heavily subsidized by state-owned banks. Experts have estimated subsidies (including from local government) for the REB connecting China with Europe to be as high as US\$ 300 billion. The Postal Savings Bank of China alone announced in May 2017 that it would provide loans worth RMB 200 billion for REB projects.⁷³

Such export subsidies as part of larger package deals are crucial for the internationalization of domestic Chinese railway standards because they are very often an integral part of specific infrastructure development projects. For example, the Jakarta-Bandung high-speed railway is being constructed by the CRC and financed by loans from the China Development Bank on the basis of Chinese technical standards. Similarly, the Abuja-Kaduna Railway constructed by the China Civil Engineering Construction Corporation is based on Chinese standards. Chinese standards are also being used in the Ethiopia-Djibouti railway, constructed by the China Railway Group and the CRCC, and the China-Laos Railway.⁷⁴

These examples demonstrate that the PRC is seeking to spread its technical standards as part of package deals to BRI countries that include the financing, design and construction of railway infrastructure.⁷⁵ China provides loans and construction firms but requires the recipient countries to accept Chinese technical standards as a precondition for Chinese engagement.

- *Creating long-term liabilities:* De facto standards are particularly important because in many cases, they lock customers into specific products from one specific supplier. The maintenance of products or their use for related products relies, in many cases, on established technical standards. Microsoft's Windows operating system, for example, requires regular updates that

users can only receive from Microsoft. Companies' practices show that this asset is being strategically used by companies. The PRC is no exception.

Countries that build their railways using Chinese technical standards will be dependent on Chinese manufacturers for decades to come. Examples of technical standards in the railway sector range from track gauge, through traction of technical parameters and digital signaling systems, to voltage. If exclusively Chinese vendors produce according to Chinese technical standards in a specific country, potential competitors, including from Europe and the US, are essentially excluded from markets in BRI countries since their products are not compatible with the existing technology. Chinese experts are aware of these effects.

While being locked into de facto standards is not a new phenomenon, China's state-centric approach involves more than just economic dependencies. Railways are a critical infrastructure and their functioning is crucial for supply reliability, the logistics of production, people's mobility, including cultural and social participation, and thus public stability and security. If countries build critical infrastructure based on Chinese standards, there are strings attached. In a nutshell, China offers a cheaper build-out of railway infrastructure along the Belt and Road and asks for the adoption of technical standards in return. The political effects of such economic dependencies are far from an unintended side-effect. China's approach to standardization creates even stronger lock-in effects because Chinese technical standards are often less flexible in their application.⁷⁶ This makes adaptation and variation of Chinese technical standards harder compared with international or European standards.⁷⁷

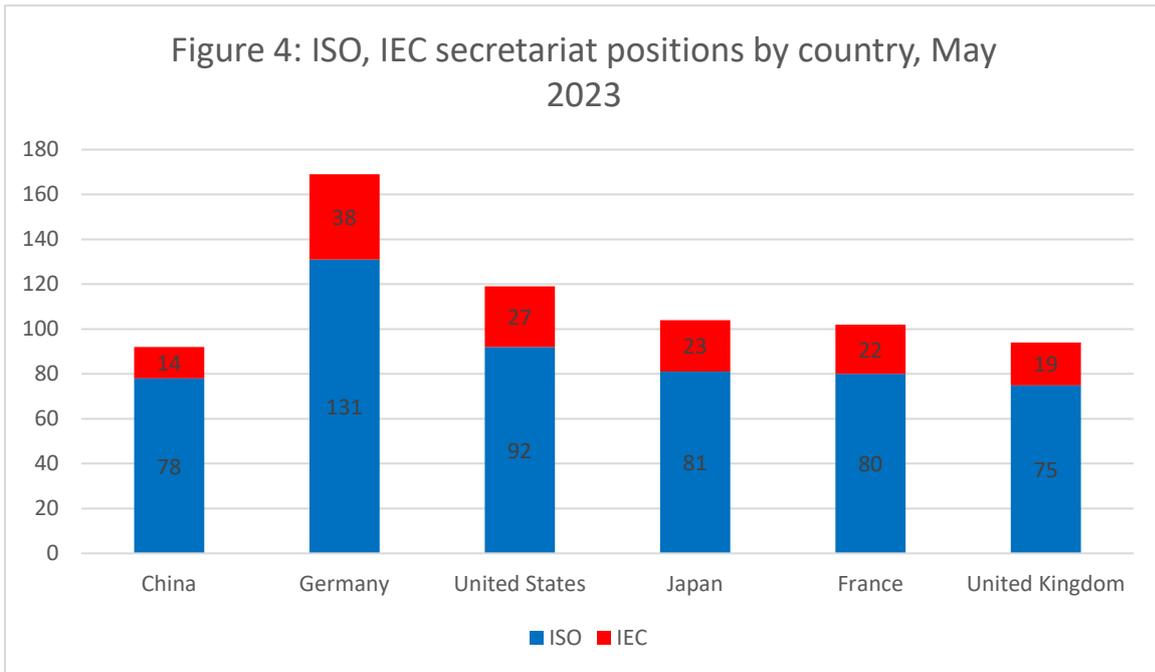
All these examples demonstrate that China's practices on influencing international formal and de facto standards do not radically deviate from those of EU and US actors. However, the PRC has developed a state-centric approach that has entered into systemic competition with the private sector-driven models originating in Europe and the United States.

Measuring China's international standardization power

China's efforts to increase its influence over international standardization have yielded divergent degrees of success. Assessing the PRC's ability to shape international standards is complicated. To some extent, quantitative measures can provide some indication, but technical relevance remains subject to dispute. Furthermore, the multitude of international SDOs makes it complex to grasp a full picture. There are around 200 SDOs for ICT standard-setting alone.⁷⁸ This testimony focuses on three influential SDOs: the ISO, the IEC and the ITU which together form the World Standards Cooperation.⁷⁹

China's influence in ISO, the IEC and the ITU varies greatly as several quantitative indicators suggest. In terms of technical leadership positions that are crucial to setting the agenda and shaping the standardization process, the PRC has gained influence in ISO and the IEC but has not achieved a dominant position. Figure 4 summarizes the composition of secretariat positions in both organizations of selected countries that have the highest share of such positions. While secretariats are supposed to be neutral, some studies suggest that bodies led by China publish a significantly higher share of standards with Chinese backing. In 2019 and 2020, 50% of all published standards by Working Groups with a Chinese secretariat were recommended by the PRC. The overall rate is around 25%.⁸⁰

Figure 4: ISO, IEC secretariat positions by country, May 2023



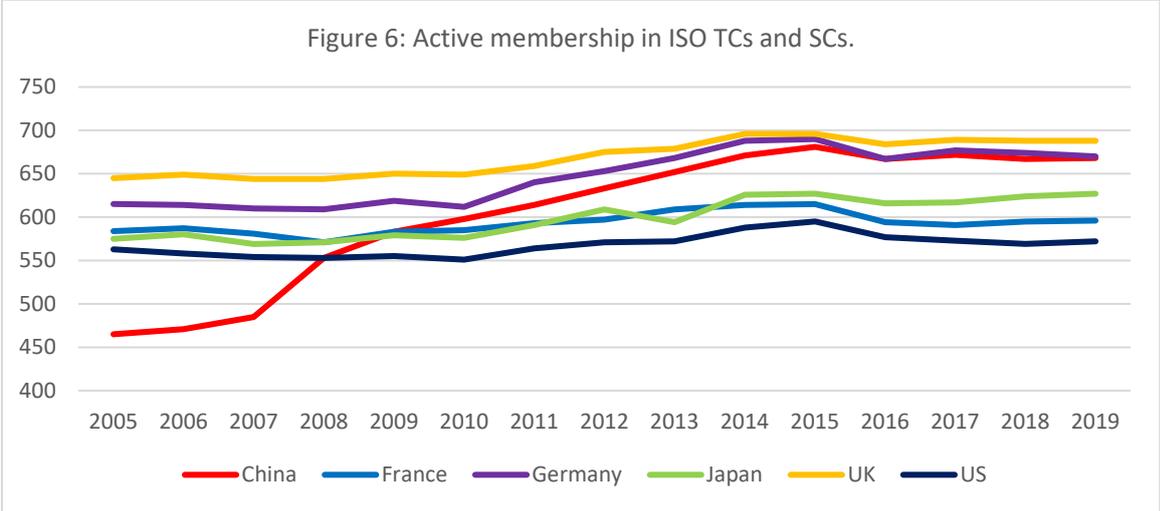
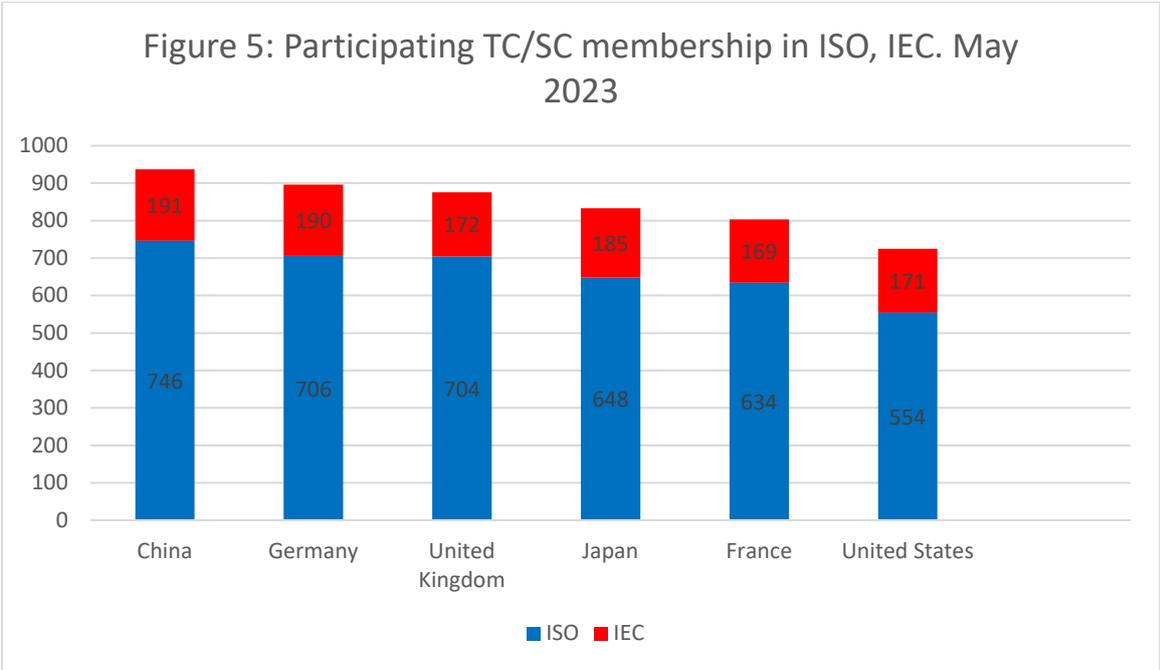
While China's share of leadership positions in ISO and the IEC is still below that of leading European countries and the US, the PRC's proportion is constantly growing. Between 2011 and 2018, the proportion of China's ISO secretariats in TCs and SCs increased from 5.0% to 8.2%. By 2022, this share had risen again to 9.4%.⁸¹ The PRC's growing representation in ISO leadership positions contrasts with falling or constant shares of European countries and the US. A decade ago, the US held 119 TC/SC secretariats in ISO; today it leads 92 secretariats.

China's share of ISO technical leadership positions varies further across sectors. According to information obtained by DIN, China has more TC and SC secretariats in metallic materials (24.1%, well ahead of Germany's share of 15.2%), and in chemicals, chemical process technology and food (13.1%, slightly outperforming France's share of 12.7%). China ranks second behind the United States in ISO standardization of transport carriage and packaging, with 15.5% compared to 17.1%, and behind Japan in non-metallic materials (10.8% compared to Japan's 12.1%). In ISO standardization of household appliances and leisure products, China has a 10.1% share, behind Germany (22.8%) and the United States (17.7%). In machinery standardization at ISO, China ranks fourth with a share of 8.1% behind the US (21.5%), Germany (20.3%) and France (12.4%). In other sectors, however, the PRC does not live up to its own ambitions. For example, while China's Standardization Outline names health, security and environmental standards as among its priorities, the PRC's share in ISO leadership positions in health, environmental and medical equipment is a mere 0.8%, far behind Germany with a share of 26.1% or the United States (21.5%).

The PRC is keen to lead ISO standardization work in strategic economic sectors. Between 2015 and 2020, China gained ISO and IEC secretariats for standardization of rare earths (ISO/TC 298), foundry machinery (ISO/TC 306), karst (ISO/TC 319),⁸² transaction assurance in e-commerce (ISO/TC 321), smart grid user interface (IEC/PC 118), high voltage direct current transmission for DC voltages above 100 kV (IEC/TC 115), low-voltage auxiliary power systems for electric power plants and substations (IEC/PC 127) and equipment for electrical and electromagnetic quantities (IEC/TC 85).⁸³ In light of the ten key sectors of the Made in China 2025 plan, it is apparent that the PRC has gained ISO and IEC secretariats in fields corresponding to its overall industrial policy strategy. In 2022, China obtained five out of nine new TC, SC and Project Committee (PC) leadership positions. China was given the secretariat positions on brain-computer interfaces (ISO/IEC/JTC1/SC43), enhanced oil recovery

(ISO/TC67/SC10), heat supply networks (ISO/TC341), management consultancy (ISO/TC342) and small hydropower plants (ISO/TC339).⁸⁴

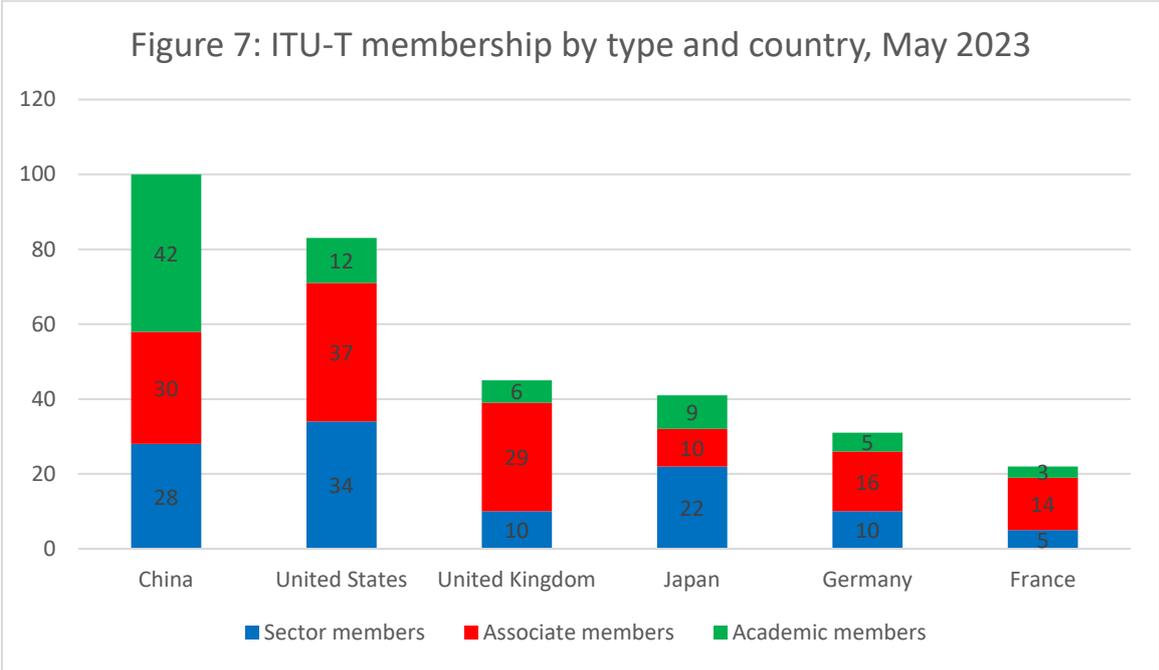
While technical leadership positions are important, however, they are not a necessary requirement to impact standardization. Participation in standard developing committees captures which actors can submit proposals to and comments on the standardization process. Figure 5 demonstrates that China is a participant in more standard developing committees in ISO and the IEC than any other country. Figure 6 demonstrates that China’s participation has grown enormously since 2007.⁸⁵



Source: AFNOR.

Although China has increased its presence in ISO and the IEC, the PRC is far from dominating the two organizations. In the ITU Telecommunication Standardization Sector (ITU-T), however, China’s influence is more apparent. In terms of sector members, the most influential type of ITU-T membership, and associate members, China ranks second behind the US. The PRC is outcompeting all other ITU members in terms of academic membership, which is a membership type with reduced fees and less influence in the ITU (Figure 7). Even more impressive is the enormous *growth* in the PRC’s

membership. In late-2012, China had just 15 ITU-T members. By July 2019, membership had grown to 46.⁸⁶ At the time of writing, China has 100 registered ITU-T members.



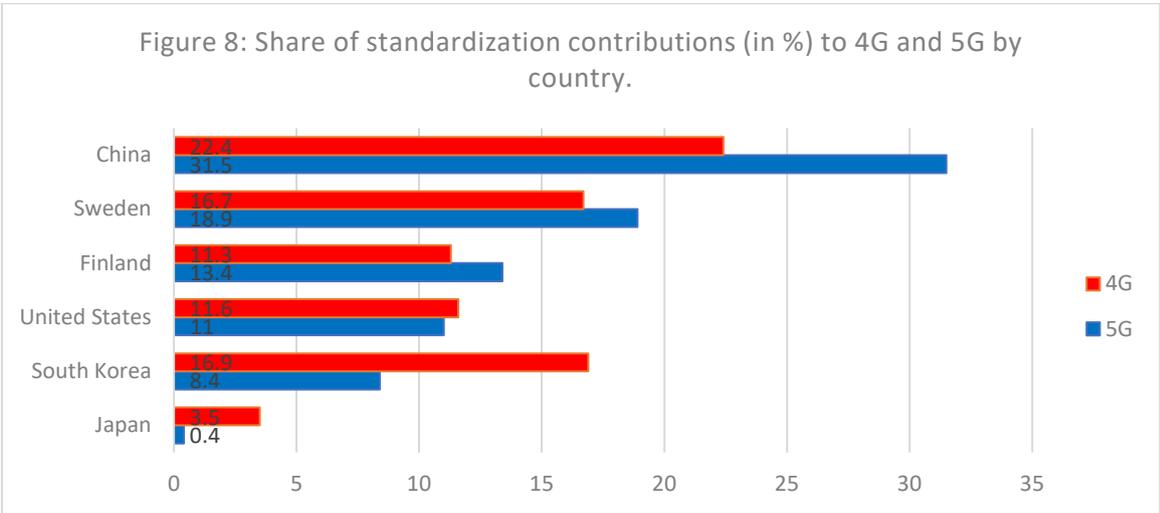
In terms of technical leadership positions, China has gained a strong role in ITU-T as well. Study Group chair positions are almost equally distributed among leading ITU-T members. In the study period 2022–2024, the PRC fills one of 11 chair positions. Only Japan and South Korea have gained two seats each. In the previous study period of 2017–2021, China was one of a few countries that held two such chair positions. Of the much higher number of study group vice-chairs, China secured 8.7%, ahead of South Korea (7.7%), Argentina, Japan and India (5.8% each) in the current study period. In the previous study period, it had a slightly higher share of 9.1%. China’s share of leadership positions in the ITU-T working groups (including the Conformity Assessment Steering Committee) is even higher. In the study period 2022–2024, China has the largest share of chairmanships (24.2%), followed by Japan (15.2%) and South Korea (12.1%). This is a slight increase over China’s 23.3% share in the study period prior to 2022. If the vice-chairs are taken into account, China’s lead becomes even clearer. While China’s share amounts to 23.5%, the UK (9.8%), as well as Argentina and Tunisia (7.8% each) follow at a great distance. In 2021, China held 18.4% of these vice-chair positions.

If contributions to and work items submitted to ITU-T study groups are considered, China’s engagement appears dominant. In 2021, Chinese entities submitted 54.4% of all contributions to ITU-T Study Groups. In terms of work items, Chinese companies were involved as supporting members in around 23%. If just work items that cite any supporting members are considered, China’s share increases to more than 65%. These numbers are even more impressive given that contributions of PRC members stood at “only” 28.8% in 2012.⁸⁷

Just like in ISO and IEC, China’s influence on ITU standardization varies across technology sectors. As a relative latecomer to international standardization China is focusing its efforts on strategic sectors and new technologies that are yet to be standardized.⁸⁸ Examples include drones,⁸⁹ lithium batteries,⁹⁰ 5G,⁹¹ data security⁹² and AI.⁹³ The PRC has dominant positions in ITU-T in the standardization of IoT and smart cities. China submitted 42% of all IoT contributions to ITU-T. The PRC may not quantitatively dominate IoT standard-setting in ISO and the IEC, but it has reportedly shaped several seminal IoT standards. As of March 2019, China had proposed no less than 11 standards for the Internet of

Things within the ISO/IEC framework, of which almost half have been approved and none have been rejected.⁹⁴

China does not numerically dominate ITU-T smart city standardization but in drafting some of the most seminal documents, Chinese participants were influential, not least by outnumbering those of other countries by far: “Chinese editors took the lead for all standards related to Key Performance Indicators (KPIs) for smart cities. Controlling the metrics by which smart cities are understood and compared gives China a significant degree of power over the expectation for smart cities, including allowing them to guide acceptable levels of security and data sharing”.⁹⁵ China has also proved highly influential in ITU-T AI standardization and standard-setting for 5G. The PRC was able to secure several technical leadership positions in the ITU-T, shaping 5G standardization. Even more importantly, China has become influential in 5G standardization within the 3GPP. Figure 8 shows that China’s share in 5G standard contributions ranks first and has increased from the previous generation of mobile technology, 4G/LTE.⁹⁶



Source: Wall Street Journal, based on IPLYtics data.

While standard essential patents (SEPs) are not the best way to calculate influence on standard setting, SEPs indicate the distributary effects of standardization.⁹⁷ IPLYtics data shows that Chinese companies hold around one-third of 5G SEPs, more than any other country. In comparison, observers estimate that China held around six per cent of the SEPs in the previous mobile technology generation, 4G/LTE, in 2011.⁹⁸ However, if proxies for the technological relevance of SEPs are considered, the IPLYtics database finds Chinese patents to be the least important compared with those filed by companies from other major 5G technology leaders in Europe, the US, South Korea, Japan, Taiwan and Canada.⁹⁹

Despite all these Chinese successes, the PRC is not dominant in all technical standardization within the ITU. For example, China was a latecomer to the standardization of quantum technologies and failed with its “New IP” proposal in the ITU. Similarly, it took the SAC around four years, until May 2020, to propose the establishment of a national blockchain standardization TC that mirrors the ISO’s TC 307, in order to domestically prepare contributions to be submitted at the international level.¹⁰⁰ ISO/TC 307 was established in 2016.

While it is beyond question that China has increased its influence on international standardization, the quality, value and therefore also the precise degree of impact of the PRC’s contributions are contested. Because technical standardization spans a wide range of products and technologies, and is itself a highly technical process of negotiation among specialized engineers in which one single

proposal seldom fully prevails, measuring China's footprint in international standardization is a complex process that must remain an approximation. For many years, European and US participants in international standardization reported that Chinese actors were submitting a high number of often low-quality contributions that were regularly rejected. In some cases, not even the technical relevance of the submissions was clear.¹⁰¹ The PRC itself focuses its policy documents on quantifiable measures of success, which incentivizes the submission of a high number of contributions.

While some of the quality concerns might still hold true, it cannot be denied that the PRC's standardization contributions have improved.¹⁰² China has arguably asserted its influence not only through the number of its contributions, but also in the importance of steering foundational standards work. In the ITU specifically, China has been steering the development of roadmaps, overviews, reference architectures, terminologies and general specifications in a number of foundational and emerging technologies.¹⁰³

Even harder to assess is China's success in spreading de facto standards internationally. There is no registry of such standards from which to deduce statistical overviews. One crucial mechanism for the dissemination of Chinese standards is likely the BRI, which has an explicit standardization dimension.¹⁰⁴ In 2015, the NDRC issued its first *Action Plan for the Harmonization of Standards along the Belt and Road*.¹⁰⁵ In late-2017, the NDRC published another action plan setting further benchmarks.¹⁰⁶ As part of the plan, China began to translate its domestic technical standards into foreign languages to facilitate their adoption in third countries.¹⁰⁷ Similarly, China proudly reports that association standards for export goods have been developed in Chinese and English to spread along the BRI.¹⁰⁸ By September 2019, China had signed 90 bilateral agreements on technical standardization cooperation with 52 countries and regions.¹⁰⁹ China has also concluded 16 memoranda of understanding with BRI countries with regard to digital standard setting as part of the Digital Silk Road.¹¹⁰ Chinese experts acknowledge, however, that these agreements are vague and it is unclear how meaningful they really are.

More important than such agreements might therefore be concrete BRI projects that incorporate Chinese technical standards. One case is the registration and authorization of 83 Chinese standards in Turkmenistan, which reportedly helped the China National Petroleum Corporation save 15% in investments in the South Yolotan gas fields.¹¹¹ It is through these projects that the PRC disseminates its domestic technical standards to third countries without submitting them to international SDOs. Other sectors in which China aims to spread its standards to BRI countries reportedly include ultra-high voltage (UHV) transmission technologies and AI.¹¹²

Another prominent example is the promotion of railway standards in BRI projects. For a long time, in the absence of a comprehensive set of international standards, China was mostly an adopter of European standards on railways, ranging from rolling stock to signaling for both mainlines and metros.¹¹³ In recent years, China has not only developed standards that are not identical to European, Japanese and US ones, but also started to promote its own standards in BRI countries. China offers funding, mostly as loans, for the development of railways if they are constructed by the CRC or other Chinese manufacturers based on Chinese standards.¹¹⁴ In addition, China is also striving to take the lead in the development of international railway standards in the ISO (ISO/TC 269) and the IEC (IEC/TC 9).

As China dominates the rollout of other critical infrastructures in BRI countries, it is likely that Chinese technical standards will spread implicitly to third countries. The PRC's large exports of smart city technology¹¹⁵ are rightly identified as a vehicle for spreading sensitive de facto standards.¹¹⁶ Equally, China

is a technology leader in digital solutions for seaports. Several of the PRC's largest ports are leading not only in terms of global cargo throughput, but also among the most efficient. While the author is not aware of a comprehensive study analyzing China's role in smart seaport standardization, the country's dominance is likely to have translated into the dissemination of related standards.¹¹⁷ The underlying logic of action is that Chinese-funded projects are mostly executed by Chinese companies.¹¹⁸ These offer technological solutions based on Chinese standards. No formal contract and no formal adoption of these standards is necessary for them to become effective. China also holds the secretariat of ISO/TC 8, "Ships and marine technology", while Huawei has become successful at developing smart port systems based on its ICT, IoT and 5G technologies. In Europe, there is currently no standardization activity that specifically targets smart seaports, but horizontal work is being carried out with regard to smart cities, AI, blockchain, cybersecurity, drones and 5G that will have implications for smart seaports.

Limited influence of Chinese standards in Europe

As Europe is an open economy, international actors can have an influence on European standardization. This includes companies from both democratic and non-democratic countries, including China. Firms with legal representation in Europe can participate in European NSBs, including those with headquarters outside of Europe. In CEN and CENELEC, non-European actors can only participate as part of European NSB delegations. This system has been tried and tested for decades and provides robust safeguards against malign influence. Most importantly, standardization in Europe is a consensus building process. European law requires that small and medium-sized enterprises (SMEs), consumer organizations, trade unions and environmental organizations all participate in the standard-setting process. These safeguards minimize the risk of domination by one or a few actors from any country, including from China.

In light of these safeguards, increased participation by experts from Chinese companies in the development of European standards is not necessarily alarming, although one would need to carefully review the sensitivity of standards developed in specific sectors. In CEN and CENELEC, standardizers in Chinese companies participate primarily in electrical energy supply, power electronics, communication cables, power systems management and associated information exchange, electrotechnical aspects of telecommunications equipment, smart grids, electric vehicles, cybersecurity and AI. Overall, experts from Chinese-based companies contribute to around 40 CEN and CENELEC TCs.

The influence of non-European actors in ETSI is more prominent. In essence, ETSI has developed into a dual institution, serving both as one of Europe's three ESOs but with the de facto status of an international SDO. Recent amendments to European standardization regulation 1025/2012 are intended to reduce the influence of Chinese multinationals including Huawei. Voting rights on harmonized European Norms (hENs) that support European legislation lie with NSBs not individual company members. Non-public analyses prior to the amendment had demonstrated a high concentration of voting rights among the largest 20 firms participating in ETSI, many of which are Chinese. Until recently, ETSI's TC dealing with Cybersecurity had been led by Huawei. While the recent regulation amendment only applies to the development of hENs, which makes up less than 5% of ETSI's work, critics fear that it could only be the beginning of a process dismantling ETSI's status as a well-established international SDO. In fact, the reform emphasizes ETSI's function as an ESO over its status as an international SDO.

Ironically, these reforms have triggered criticism not only from China, but mostly from US companies.¹¹⁹ The US government has also voiced concerns in the US-EU Trade and Technology Council

(TTC). The latter is remarkable given that the European Commission just published a Standardization request for AI to support the EU's upcoming AI Act. To meet this request, ISO/IEC Joint Technical Committee 1, Subcommittee 21 has concluded an agreement on collaboration with the US-based Institute of Electrical and Electronics Engineers (IEEE). This is indicative of the fact that the EU's policy is not primarily targeting US involvement, but aligned with the interests of transatlantic collaboration.

When assessing the effects of Chinese participation in European and international standard-setting organizations, one must consider the alternatives. China has developed into a highly innovative country and it is natural that it should gain influence over international standardization. If the PRC is not accommodated in existing institutions that follow established rules with a strong presence of European and US actors alongside like-minded partners, the PRC is likely to establish rival institutions that could undermine the existing system. In its Standardization Outline, China announced its intention to set up industry consortia in China to work in the English language in order to attract international companies and challenge existing standard-setting industry consortia, most of which are based in the US, such as the IEEE or the Internet Engineering Task Force (IETF). In September 2022, the first of such associations, the WLAN Application Alliance (WWA), was founded in Shenzhen.¹²⁰ Rumors speak of at least five more such industry alliances that are currently in preparation and could be launched soon. This development could also weaken ETSI if China established a rival institution.

Another potential inroad for Chinese influence is the adoption in Europe of de facto standards from China. The tracking de facto standards is difficult, and no proper analysis exists to the knowledge of the author. However, some mechanisms of potential influence can be identified. For example, Chinese investors in European infrastructure projects might require the use of Chinese standards. These standards need to be compatible with European legislation, but risks could still result if standards compliant with regulation had inherent security risks or fragmented the Single Market, or if deficient market surveillance allowed non-compliant standards to exist in practice. However, the author is not aware of such cases.

Another potential mechanism of Chinese de facto standard influence in Europe emerges from European firms' R&D engagement with the PRC. For example, substantial innovation in fields such as autonomous driving and electric vehicles is carried out in China. It is not unlikely that such innovation influences Chinese standardization and by extension is also utilized in Europe. Ultimately, such innovation could become part of European standards. It should be borne in mind, however, that innovation is by its very nature transnational and the spillover of technical specifications to other countries is the rule rather than the exception. In line with the risk profiles discussed below, it is worth monitoring the concrete effects of standards instead of taking issue with their origin by default.

Limited adoption of international standards in China

China's increasing activity in international SDOs might be daunting to some international observers but it is generally a positive trend. It is no surprise that economic transformation in the PRC is being accompanied by increased impact on international standardization. Integration of the PRC into existing institutions, however, is in contrast to adoption ratios of international standards. Calculating adoption ratios is anything but straightforward, so assessments vary. Rhodium Group and BusinessEurope, for example, identify a continuous downward trend from an adoption ratio of 69 per cent in 1998 to just 21 per cent in 2017.¹²¹ The European Union Chamber of Commerce in China has "observed that the overall percentage of new international standards issued by China has slightly increased since 2017, it also notes a general downward trend in the past decade, and that a number of these standards are not identical to their international counterparts".¹²²

There are two possible explanations for the China's low adoption ratio of international standards despite increasing engagement in international SDOs. First, China's engagement could reflect the fact that the PRC is seeking to increase its international influence but does not accept the merit of the institutions as such. From this perspective, international SDOs are merely instrumental for China. Second, domestic factors might be negatively impacting China's adoption ratio. The SAC aims to keep the number of national standards relatively low, which implies that it would probably be reluctant to approve a high number of standardization initiatives. Therefore, faced with the need to prioritize the development of some national standards over others, Chinese standardizers have a self-interest in developing their own standards instead of filling their quota through the adoption of international standards. An underlying reason is that the development of standards requires more work, and also generates and safeguards employment, while the adoption of standards does not to the same extent.¹²³

If the latter interpretation holds true, China's Standardization Outline, which has set ambitious benchmarks for the adoption of international standards at 85%, could serve as a means to break domestic resistance and increase Chinese adoption of identical international standards.

De-risking China's growing standardization power

- China's growing international standardization power is not a problem as such but reflects the country's level of innovation.
- Nonetheless, the EU and the US should not stand idly by while Chinese standardization power grows. Both transatlantic partners should invest in their own standard-setting capabilities to maintain a competitive advantage.
- Lock-in dependencies could lead to technology fragmentation and undermine supply chain resilience.
- Standardization can increase security but has the potential to spread vulnerabilities. China's civil-military fusion in standardization is a source of concern to the EU and the US.
- Chinese standards can undermine fundamental human rights. The predominant role of the party-state in Chinese standardization is accelerating concerns that China's standardization might normalize Chinese authoritarian norms in third countries.
- Competition over SEPs and SEPs pricing have enormous effects on competitiveness. An uneven playing field is a major risk to the US and the EU.

China's increasing footprint in international technical standardization is neither extraordinary and surprising nor a threat. The PRC has developed into a global powerhouse and thus naturally also into an international standardization power. Standard-setting has always been cooperative and competitive: "We must clearly understand the fundamental law of standard development which is that standards are never neutral. They reflect the strength and innovations of those who offer them to the committees. Not participating in standardization abdicates the decision-making to the competition, whether it be by company or nation".¹²⁴ China's influence is not negative – at least as long as China is integrating into existing international SDOs.

That is not to say that the EU and the US can stand idly by while Chinese standardization power grows. Both transatlantic partners should invest in their own standard-setting capabilities with the aim of maintaining a competitive advantage.

It is also not to say that China's growing footprint in technical standard-setting is without risks. These risks arise not least from China's state-centric approach, which closely links standard-setting and strategic political goals. To de-risk, the United States and the European Union must properly understand

the risk profiles that mirror the four general risks outlined above. Simply pushing back against any Chinese influence will only make the existing standardization system dysfunctional and incentivize China to spread its technical standards outside established SDOs. The following lays out the standards dimension of the four risks and explains how China's state-centric approach adds to the challenge.

- *Risks to supply chain resilience:* Technical standards create markets by means of interoperability. When technical standards are global in scope, they facilitate international trade and help to increase the resilience of global supply chains. The underlying mechanism is simple: When technologies and products share standardized features that make them interoperable, they are easier to exchange with the technologies and products of a competitor. Hence, sourcing from a variety of suppliers gets easier. However, standards can also be hurdles to trade and create distinct technological spheres because they generate interoperability only in the geographical area where they are applied. This means that technical standards can create geographically bifurcated or fragmented technological corridors. Competing contradictory standards result in a lack of global interoperability, potentially creating 'lock-in' effects that can come with political costs that reach far beyond the field of technical standardization. Chinese railway standards in the BRI countries are a case in point. The respective countries will need Chinese suppliers to maintain and further build out their railway networks for the foreseeable future, as the standards are not compatible with those of non-Chinese competitors. The resultant risk is that of a fragmented technology world with distinct standard spheres. This double-edged sword is neither China-specific nor new. Economists have been studying lock-in effects resulting from dominant technologies for decades, particularly if they enable complementary technologies as network effects/externalities.¹²⁵ Such studies have convincingly demonstrated that the obstacles to changing such dominant technical standards are high, particularly since this comes with enormous adaptation costs.¹²⁶ Particularly in the digital components of critical infrastructure, maintenance and expert knowledge are becoming essential, and lock countries into the products of specific suppliers. 'Early mover advantage' can also result in a technologically inferior solution remaining dominant.¹²⁷ Politically, this remains largely unproblematic as long as the respective technology/product is not sensitive for the well-being of society and no political strings are attached. Railways, however, are critical infrastructure, enabling the flow of goods and people. A lock-in effect in such a critical sector has the potential to lead to political blackmail. Even the threat of blackmail might contribute to third countries carefully considering whether to challenge the core interests of the PRC.¹²⁸ As many Chinese companies operating in critical sectors are state-owned or closely aligned with the party-state, the risks of political interference increase.
- *Risks to national security:* Technical standards also have the potential to impinge on what is often regarded as the crown jewels of state power: security narrowly defined as risks resulting from military and intelligence capabilities. Some observers argue that those who develop a technology are likely to have a deeper knowledge of how it works, including its vulnerabilities. Once internationally standardized, this technology spreads globally. When this concerns critical digital infrastructure, the developer of the technology in question possesses prime knowledge of its flaws, which has the potential to be used to undermine an adversary's (cyber)security.¹²⁹ Many experts within the Chinese defense industry argue that the use of standards from overseas competitors in strategic sectors of communication creates critical vulnerabilities for the PRC. From this perspective, technical standardization becomes a subject of civil and military network security.¹³⁰ Following a similar logic, observers from the US defense sector have

been discussing the implications of Chinese strengths in 5G standards for the low-frequency spectrum. This led them to consider strengthening the millimeter spectrum (mmWave) to ensure that US military communication in operations abroad have reliable infrastructure where foundational technical standards are shaped more by US companies than those for the 5G low-frequency spectrum.¹³¹

Standardization can increase security. It is a process of maximum transparency as it is essentially a process of international peer review. Indeed, it is difficult to hide security-relevant flaws from the engineers of potential adversaries. A high degree of standardized technology increases the (cyber)security of products by providing international transparency. Agenda-setting power over which components of a given technology are the subject of standardization becomes highly security relevant. Whichever perspective is more accurate, however, technical standardization influences the degree of (cyber)security in critical digital technologies.¹³² This explains why it is not only the content of adopted standard contributions that is important, but also the definition of the components and how the contribution is to be implemented by means of certification.¹³³ This applies particularly in cases of dual-use goods when technical standards are relevant not only for civilian but also for military purposes.¹³⁴ China's party-state has a steering function within the Chinese system, interferes formally and informally and has openly declared civil-military fusion to be one of its policy goals in technical standardization. The PRC's growing footprint in standard-setting therefore carries risks to the national security of the EU and the US. A recently published report provides examples of the involvement in standardization of Chinese actors that are sanctioned by the United States for their close ties to the PRC's military sector or for facilitating the violation of fundamental human rights.¹³⁵

- *Risks to normative aspirations:* The design of technology is highly political because it inscribes ethical values. Technology does not exist in a vacuum divorced from the political. Technical standards are important in this regard since they formulate a “basic recipe” that sets the general rules by which different manufacturers develop specific products. They therefore shape the physical world around us and contribute to the constitution of our social lives. The necessity and omnipresence of standards make us barely question them.¹³⁶ Hence, technical standards shape what is perceived as “normal” technology. This does not just hold true for consumers; companies also “socialize” into the technological world shaped by technical standards and develop new applications based on existing standards.¹³⁷ This has led several scholars to describe technical standards as social institutions in their own right.¹³⁸

For instance, while we are used to Wi-Fi as the dominant standard for wireless area networking (WLAN), this was by no means a given. Shortly after Wi-Fi was adopted as the international standard, China proposed wireless authentication and privacy infrastructure (WAPI) technology as a new standard. Although it promised better performance, WAPI provided worse privacy compared to Wi-Fi.¹³⁹ WAPI met considerable resistance and finally failed to become an international standard, due to procedural issues,¹⁴⁰ and because China would not release WAPI's security algorithm.¹⁴¹

This is not an isolated example. At a time when emerging technologies are increasingly penetrating all spheres of public and private life, ethical, political and security concerns are playing a growing role in technical standardization. Algorithmic bias and data privacy are just two examples of ethical underpinnings in technical standardization.¹⁴² The EU recognizes the importance of AI's ethical implications and has drafted guidelines that found a wide international resonance, not least among Organization for Economic Co-operation and Development

(OECD) countries.¹⁴³ However, such guidelines need to be standardized if they are to become effective. EU officials openly admit that this is where the EU risks failure due to its relatively low presence in international AI standardization.¹⁴⁴

China is well aware of the “normalizing” effects of technical standards. For example, the PRC rejected the standardization of Cantonese writing on western keyboards, which would have eased the use of the southern Chinese dialect. The weakening of Mandarin Chinese would have only been marginal, but the Chinese leadership was concerned about the symbolic importance of such a standard.¹⁴⁵

International standards are also useful normative tools as they have enormous legal implications. Standards may be voluntary by definition but standards can become part of international trade law through the backdoor. The TBT Agreement, the Agreement on Government Procurement, the review of the Agreement on Sanitary and Phytosanitary Measures and the General Agreement on Trade in Services (GATS) under the framework of the World Trade Organization (WTO) all treat international standards as crucial benchmarks for the facilitation of international trade and as important qualifications of what counts as a legitimate exception, for example under the pretext of basic safety requirements.¹⁴⁶ This is more crucial than one might think given that around 80% of trade is affected by technical standards and associated technical regulations.¹⁴⁷ The normative implications of standards are not China-specific. However, the predominant role of party-state actors in China’s standardization system is accelerating concerns that Chinese standard-setting activities foster the spread of Chinese authoritarian norms to third countries.

- *Risks to competitiveness*: The effects of technical standards on the competitiveness of companies are well-known and widely discussed. However, the growing importance of ICT in a broad set of economic sectors is only accelerating these effects. In many cases, patents implement standards. An estimated 55% of all ICT standards are patented technology. This includes a wide variety of applications in fields as varied as telecommunications, e-commerce, electronics, life sciences, healthcare, manufacturing and the automotive industry.¹⁴⁸

While SEPs are available to all suppliers and not just to the patent holder under FRAND terms, the licensing of SEPs comes with enormous amounts of royalty fees that manufacturers must pay to the inventors of the underlying innovative technologies. For example, US high-technology company Qualcomm earned €5.2 billion by licensing technology in 2017, accounting for more than 20% of the company’s revenue; and Finnish telecommunications vendor Nokia generated €1.65 billion the same year in the same way, which was 7% of its total revenue.¹⁴⁹ Having been the second largest payer of license fees in the past 15 years,¹⁵⁰ China has identified the impact on competitiveness. The country is now striving to increase its share of SEPs or to develop its infrastructure and technology projects without Western standards, while also spreading Chinese standards by means of the BRI.

At a time when digital connectivity affects more and more sectors that used to be non-digital, such as the automotive, home appliances and healthcare sectors, experts argue that the licensing of SEPs will most likely be very different across industry sectors.¹⁵¹ The importance of patents in technical standards will only increase.

These effects are not limited to the payment of royalties for SEPs. Companies that fail to establish their technological solutions as technical standards must redesign their products to comply with other standards. This results in what is widely referred to as ‘switching’ or ‘adaptation’ costs.¹⁵² Hence, those that successfully set international technical standards can not only expect royalties from SEPs but also avoid adaptation costs. Given the considerable size of

both royalties and fees, there is a clear correlation with competitiveness.

China has well understood the importance of SEPs and is striving not only to obtain more SEPs, but also to achieve control over SEPs pricing. For this purpose, the PRC's Supreme Court has issued an anti-suit injunction that threatens companies with high penalty payments if SEPs conflicts are not brought to the Chinese courts. The EU and the US have taken a case to the WTO judiciary.

The anti-suit injunction is not the only risk emerging from the close interlinkage between the party-state and its standardization agenda. In fact, the uneven playing field described above, which includes direct and indirect subsidies facilitating the development of technical standards but also enormous state investments in standards education, distorts fair competition over international standardization.

A final example is China's tactic of swamping international SDOs with standard proposals and sending a high number of representatives. This overload increases the chances of Chinese contributions being accepted, not least if it comes with significant Chinese voting power and comprehensive coordination.

The final section explores how the US and the EU can meet these challenges through a coordinated de-risking strategy.

Policy recommendations on transatlantic cooperation

- The transatlantic partners face a dilemma: they need to meet the challenges from China's state-centric approach and adopt a de-risking policy but must avoid dismantling the existing private sector-led standardization system which works to their advantage.
- As a general guideline, a commitment to continued standardization cooperation with China should be coupled with deeper transatlantic coordination, but along the lines of the four risk profiles.

Both transatlantic partners face the same dilemma in responding effectively to China's growing footprint in technical standardization. On the one hand, the US and the EU are striving to respond to the risks outlined above and should integrate technical standard-setting into their de-risking strategies. On the other hand, they should strive to prevent the disintegration of the private sector-led system that has served the interests of both transatlantic partners well. At its extreme, state interference could lead to a partial adoption of Chinese state-centric approaches. For example, for good reason, the US Government withdrew a previous executive order that could have deterred companies from standardization cooperation with sanctioned Chinese actors. If upheld, this would have eroded the relevance of the respective SDOs and could have facilitated the relocation of standardization to other forums or the fragmentation of standards.

Both the EU and the US have recognized this general dilemma and have sought to strike a balance between the different policy needs in their respective standardization strategies. The European Standardization Strategy, published in February 2022, has been criticized by some stakeholders for taking a too state-centric approach. It is not unlikely that the US Strategy, published by the White House in May 2023, will meet similar concerns as its vaguer clauses indicate a similar course to that of the EU. Private sector stakeholders should bear in mind, however, that the EU and the US must de-risk their standardization approaches. Policy changes are essential.

As a general guideline, the author suggests committing to continued standardization cooperation with China as well as deeper transatlantic coordination, but along the lines of the four risk profiles.

- *De-risking to enhance supply chain security:* Central to strengthening supply chain security by means of standardization policy is the promotion of international standards while avoiding the fragmentation of standard-setting and lock-in effects to Chinese standards. For this purpose, the transatlantic partners should adopt four policy measures:
 - ✓ *Coordinate support for concrete international standards in the TTC:* Transatlantic endorsement of technical standards continues to be a powerful tool boosting the international relevance of technical standards. The recently concluded TTC ministerial meeting in Luleå, Sweden provides an example of best practice. The Joint Statement included an agreement on a common approach to international standards developed by ISO/IEC/SAE to support the megawatt charging system infrastructure for heavy duty vehicles. This is likely to strengthen international standards competition with the “Super-Chaoji” standard, which is currently being jointly developed by China and Japan. The Joint Statement further explores similar cooperation in additive manufacturing, recommending the development of standards with three logos (ISO, CEN, ASTM).
 - ✓ *Introduce voluntary certification schemes to increase the resilience of SDOs:* The governance structure of many SDOs has proved robust, but this does not hold true for all standard-setting organizations. Voluntary certification that includes a stress test along the lines of the criteria set out for international standardization in the TBT Agreement could strengthen the impact of SDOs with robust governance structures. These procedural criteria are transparency, openness, impartiality and consensus, effectiveness and relevance, coherence, and a development dimension that implies standard setting must be open to developing states.¹⁵³ Stress test certification should also consider the distribution of votes.
 - ✓ *Bind infrastructure investment cooperation consequently to international standards:* States participating in the BRI are increasingly aware that incorporating Chinese technical standards comes with inherent technological dependencies. The EU and the US should therefore try to alleviate any related unease by incorporating and incentivizing the adoption of international standards in all financing vehicles in their infrastructure investment initiatives, not least within the G7 format. Where international standards are not available, the transatlantic partners should develop processes to develop standard solutions with local partners that avoid lock-in effects.
 - ✓ *Uphold conditional standardization cooperation with China:* Preventing the fragmentation of standard-setting requires maintenance of Chinese commitment to existing international standards. The US and the EU should actively encourage Chinese participation as long as this conforms to the rules of established international SDOs. In cases of non-compliance or discrimination against foreign-invested enterprises in domestic standardization in China, the transatlantic partners should coordinate by raising concerns in bilateral meetings with China and bringing them to the WTO/TBT Committee.
- *De-risking to enhance national security:* Meeting risks to national security primarily requires identification of critical standardization efforts by the PRC and matching Chinese engagement with actors with an active interest in and mandate to safeguard the national security of the US and the European Union. Four tools could support such transatlantic activities:
 - ✓ *Transatlantic security review mechanism:* Most technical standards have no impact on national security defined as relevance for military and intelligence capabilities. Identifying and tracking standardization activities across the multitude of international standard-setting organizations – not to mention de facto standardization – with security relevance is an ambitious undertaking. The transatlantic partners should consider setting up a registry of security-relevant standardization projects – possibly

as part of cooperation within the North Atlantic Treaty Organization (NATO) and its existing standardization arm.

- ✓ *Enhancement of public actor engagement:* National security is not the primary concern of the corporate sector. It would be naive to assume that defending national security interests in international SDOs will be successful without an increase in the number of state representatives in these organizations. As technical expertise is required, transatlantic partners should consult and explore best practices for attracting talent to fill these positions, and increase public budgets.
- ✓ *Proactive mapping of upcoming technical leadership vacancies:* Agenda setting is central to defining the scope of standardization, which – as argued above – has security relevance. Mapping upcoming vacancies in technical leadership positions in relevant international SDOs coupled with transatlantic coordination could help to fill more of these leadership positions.¹⁵⁴
- ✓ *Pushback against Chinese civil-military fusion in international standardization:* China’s standardization efforts could suffer from international pushback due to the explicit linkage of the civilian and military purposes of standard setting. This “civil-military fusion” has the potential to damage China’s international reputation. Transatlantic partners should raise awareness and concerns, and encourage China to commit to the civilian purposes and common good principles of standardization. If China were to make any such commitments, these would need to be reflected and clearly communicated in its domestic policy.
- *De-risking to enhance normative ambitions:* A core challenge to the protection of fundamental values is that current standardization practices consider economic and technical merit but not fundamental values. Four measures could promote the normative agenda of the transatlantic partners:
 - ✓ *Promote values as benchmarks for international standardization:* Technical standards are inscribed with values that touch on human rights concerns, among other things. The transatlantic partners should aim for fundamental human rights to be acknowledged as a criterion – at least in strategic sectors such as AI. The EU and the US could advocate SDOs and standard-developing industry consortia to adopt a self-commitment to basic human rights. The Internet Research Task Force (IRTF), for example, has already developed human rights guidelines.¹⁵⁵
 - ✓ *Broaden standardization cooperation to like-minded partners:* The US and the EU should not be the only actors with an active interest in the defense of fundamental rights. Coordination among lawmakers and standardizers from Europe, the United States and like-minded partners such as Japan, South Korea, Australia and New Zealand should be explored and focused on specific and concrete value concerns. While such coordination is necessarily of limited impact, the TTC has proved that it can be instrumental – not least in the context of coordination ahead of leadership elections in the ITU.
 - ✓ *Enhance the participation of civil society and public actors:* Technical standards are mainly developed by large companies. In addition to increasing SME participation in standardization, the EU and the US could provide financial incentives for non-profit civil society actors to get more involved in international standard setting. In the absence of business interests, civil society actors can be freer to address the values dimension of standardization. At the same time, political representatives need to take an increasingly direct and prominent role in standard setting to protect values that are outside of the corporate interests of companies.

- ✓ *Build standardization alliances for sustainability:* While the transatlantic partners and China may have divergent views on a number of values inscribed in technical standards, they share concern on the protection of the environment, including combating climate change. As part of an agenda that combines cooperative and competitive elements with the PRC, the US and the EU should actively explore the cooperation potential in standardization for sustainability.
Dialogues with the PRC should explore the potential for common interests in technical standard cooperation in specific sectors, with a focus on concrete deliverables. One ongoing example is EU-China collaboration on green investment taxonomy standard setting.
- *De-risking to enhance competitiveness:* European and US competitiveness suffers from an un-level playing field in standard-setting vis-à-vis China. Four sets of policy measures could help to defend transatlantic interests:
 - ✓ *Increasing financial support for strategic standardization:* In light of the substantial financial support provided for pre-standardization research and standardization activities in China, the transatlantic partners need to face the reality that they have to spend more on standard-setting. As resources are scarce, five criteria should be applied for targeting financial support for standardization work: preventing lock-in effects, cross-industrial relevance of standards, national security relevance, ethical implications and regulatory relevance.¹⁵⁶ In addition, standardization education needs to become a priority. In China, thousands of engineering students graduate every year from programs that either exclusively train them in technical standardization or include modules exposing them to standard setting. Transatlantic programs promoting and funding the establishment of academic standardization education is needed.
 - ✓ *Coordination of regulation and standardization:* The close interlinkage of standards and regulation can provide enormous force. When referenced in legally binding documents, technical standards remain voluntary but, as they support legislation, have additional relevance to market actors. The EU is making systematic use of this mechanism. When coordinating strategic technology policies, the transatlantic partners should actively explore where international standards developed by ISO and the IEC can support the common agenda and agree to reference the same standards in legally binding documents, effectively outperforming alternative standards.
 - ✓ *Defense of international best practices for pricing of SEPs:* As China strives to gain control over the pricing of SEPs, the transatlantic partners should continue to closely coordinate their efforts in the WTO. As this takes time, both sides should refrain from adopting similar tactics and instead explore defensive measures such as providing legal grounds for courts to issue countermeasures (anti-anti-suit injunctions).
 - ✓ *Insist on reciprocity and explore sanctions targeting Chinese discrimination:* An approach to technical standards that promotes technical quality should not discriminate against actors due to their origin. The transatlantic partners should insist that China fulfil the promises it has made in its Foreign Investment Law and its Standardization Outline, and grant all interested stakeholders—including FIEs—fair access to all TCs, SCs and WGs. China should guarantee equal rights to all entities participating in standard-developing committees, ensuring transparency regarding membership requirements, fees and information disclosure, while encouraging inclusive standard setting across standard-developing associations. Inclusivity should also be increased for association standards. Such calls for reciprocity should be coupled with insistence on compliance with WTO requirements. Despite progress, China still falls short of its reporting duties on technical standards to the WTO's TBT Committee. The EU and the

US should not only continue to raise this with China, but also develop a simple sanctions mechanism for dealing with violations of reporting duties and include this in their WTO reform proposals.

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- ⁸³ Information privately obtained by the author from a European standardization organization.
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[china-battles-west-for-control-of-vital-technology-standards-11612722698](#), accessed 17 February 2021. Many standard contributions are made by a group of firms, including actors from several countries. This means that the relevance of companies' standard contributions needs to be weighted. One method of doing this is to only consider first authors because contributing companies are normally listed in the order of their importance to a given standard proposal. An alternative method for calculating standardization contributions is to attribute each contributing company an equal share of a standard contribution (all combined receive one share). For example, if a standard contribution is submitted by four firms, each company is credited with 0.25 standard contributions. While China's share of 5G standard contributions varies depending on specific calculations, the IPlytics database demonstrates that the PRC is ranked first by all calculations. In terms of accepted standard contributions, however, China falls slightly behind contributions from EU companies. Tim Pohlmann et al. (2020): Studie zur Untersuchung und Analyse der Patentsituation bei der Standardisierung von 5G. Berlin: IPlytics.

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¹²⁷ Melissa A. Schilling (2002): Technology success and failure in winner-take-all markets. The impact of learning orientation, timing, and network externalities, in: *The Academy of Management Journal* 45: 2, pp. 387-398.

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PANEL II QUESTION AND ANSWER

COMMISSIONER FRIEDBERG: Thank you very much. Excellent.

We're going to go in reverse order.

Vice Chairman Wong.

VICE CHAIRMAN WONG: Thank you.

Mr. Rühlig, thank you for your testimony in particular because in the D.C. policy community -- this is only my experience or my ignorance -- the term standard-setting is thrown around. The topic is talked about. But actually coming across a deep explanation of its significance and its details is not that common, so thank you for that.

Second, I also think your testimony kind of reveals, at least to me, that this is another area where the pattern of, whether it's in academia or in our politics or in trade, the situation where kind of open, decentralized systems of the West and led by the United States -- when they come into collision with a party-state-centric actor, it creates these dilemmas. And I think you laid that out quite nicely.

I want to focus on some of your recommendations with regard to the national security pillar of your analysis. You recommend proactive mapping of upcoming technical leadership vacancies since I've kind of coordinated action among the U.S. and its partners.

Forgive my ignorance, but are those elections of these figures? And when you say coordination, do you mean coordination on and putting forward of candidates and voting? I ask this because it strikes me as a similar activity that the U.S. has tried to ramp up in international organizations, multilateral organizations.

And then my follow-on question to that is, are we facing a concerted Chinese effort to elect their candidates in these bodies?

DR. RÜHLIG: Thank you very much. Yes, indeed. We are talking here about elections, but some of these posts are not even challenged. So you just have one candidate running. And in many cases -- I mean, if you look at the numbers, the pure number of Chinese participants, that's enormous.

So China is very often -- not maybe sort of efficiently, if you sort of calculate by person -- flooding some of these institutions. But they are there. They have the resources in place to run for plenty of even uncontested seats. It can be that you actually need to, indeed, step up and bring up a candidate to run in elections and technical committees, subcommittees.

And so it is about sort of coordinating candidates and voting. Indeed, I think this is very similar to what you describe. But sometimes it's also to just put forward new technical proposals. So, in many cases, those that put forward technical proposals are then also first in line to actually take leadership positions. That is particular for new technical standard projects.

China is indeed, I think, very effectively coordinating its own approach to bring its own STEM candidates to grab technical leadership positions in those institutions. And I worry that particular sort of -- within the Belt and Road Initiative, it may even be on the brink of expanding that coordination further and deepening the coordination further.

VICE CHAIRMAN WONG: Another question on your recommendations in this area -- you talk about enhancement of public actor engagement in these standard-setting organizations to represent a national security view because we can't expect the private sector to have that at the front of their mind.

Having these state representatives, is this a normal -- no pun intended -- standard practice in these organizations? Or is this something new that we would have to present and socialize?

DR. RÜHLIG: So there's a statistic that I think for the 200 most influential ICT standardization organizations, 0.2 percent of the representatives are state officials. So it's not that these would be the first state officials participating ever, but it is a quite uncommon practice.

And I think when starting to engage in this subject a couple of years ago, my recommendation was to raise the awareness among public sector actors to actually defend those interests of national security. But over the years, I got sort of a bit more skeptical on how high this is on the agenda of these firms, particularly those that have very deep and strong economic interests, commercial interests, in China, whether they're really willing to stand up for interests that go beyond their limited company's interests.

So this is why I personally don't really see any alternative to either have public actors at the table -- in the case of national security, I think that's probably the way to go -- or actually try to fund actors that have no commercial interest. That should be civil society, then. But I think that is probably more realistic in the sphere of values because we have quite a number of technically very capable NGOs that are interested and whose mandate it is to actually defend a number of values, not least privacy.

So that could be a way in the values domain. I think for national security, it will probably ultimately fall onto state actors. But indeed, that's really at the heart of the dilemma that I tried to describe. You don't want to over-politicize it, but you need to also push back against obvious Chinese interests that undercut our national security.

COMMISSIONER FRIEDBERG: Commissioner Wessel.

COMMISSIONER WESSEL: Thank you all for your testimony. And I want to continue Commissioner Wong's line of questioning and ask -- and I also want to highlight and Commissioner Goodwin is still with us on screen, Commissioner Goodwin co-chaired a hearing on standards in 2020. So, agree with you as to the importance. We have been working on this issue for a number of years.

Ms. Gorman, I want to ask -- I want to ask all the participants, but Ms. Gorman, you know, you worked for Senator Warner who, you know, was one of the leaders on technology, probably still the preeminent leader on technology in Congress who, looking at O-RAN and many other things over the years.

You served at the NSC. We followed the standards issue. We're now dealing with and our staff did a great paper on LOGINK and the technology platform that the CCP has sponsored that's being used in ports around the globe on Chinese servers, going to be in the Chinese cloud. And it has all logistics information that could both provide a economic and national security intelligence treasure trove, but also disable networks.

Ms. Gorman, from your former seat, do we have the competence to be able to do this standard-setting approach as the U.S.?

Mr. Rühlig, you talked about NGOs and others and I agree with, you know, a values-based approach, free speech, you know, protection of human rights. But you know, our companies and our scientific leaders going into standard-setting bodies looking for the best outcome, not having a competitive strategy coupled with it. The Chinese have a competitive strategy.

So Mr. Rühlig, Ms. Gorman, do you think we can actually do it? Do we have the competence within our own government, whether it's NSC, OSTP, NIST, any of a number --

NTIA, any of a number of entities? And with the EU, which you know, just according to the FT gave 15% of its money to Huawei to participate in 11 new technology ventures.

You know, I agree with you completely on standards. Are we up to the task?

Ms. Gorman, do you want to start?

MS. GORMAN: Sure. Thank you for the question. And I think it highlights a predicament that's sort of in perhaps two parts. I think there's the standards development and inclusion into standard essential patents.

And then the ability of those standards, such as for example around the ability to collect data in ports. The ability to place those technologies around the world.

And I do think on the question of standards, we just had the release of a technology standards strategy that really does double down on a private sector-led standardization process from the U.S. side.

That is the approach we have traditionally taken, that if our private sector goes for the best technology and we have the best technology, in most international standards bodies, that's the approach that favors a democratic outcome.

Now, there is I think one very unique standards body, the International Telecommunications Union, where the statistic that Tim cited about the .2% of the government actors are probably all in ITU, because that is a state-led standards organization.

And that's where China has really succeeded in corrupting the process and using these anti-competitive tools to advance its own standards into standard essential patents, and then distribute those in MOUs across the BRI.

Now, I think we've made some progress. We have the first U.S.-elected Secretary General of the ITU in half a century. And we are sort of turning the tide. We, at the TTC, we have created standards contact groups to kind of look for that kind of selective state-backed promotion.

So it's not my view that we need to take the Chinese approach right now of saying let's invite all of our government representative and come up with a top-down strategy. I still think we can win at the sort of private-sector-driven approach if we control for the non-market forces and do a better job of being aware of when they're being abused.

COMMISSIONER WESSEL: Let me pull on that, because you know, the question, and again, with administrations changing every four or eight years, again and you're a seat inside, and again, great people at NIST, NTIA and elsewhere.

You know, I question as well whether it should be government-led. But when it's industry-led, they are not looking at competitive strategies for the West.

You know, they are often, you know, experts in the field, which is great, who are looking for the highest and best approach regardless of who wins. And regardless of the use to which it can be put.

What kind of discussions within government to the extent you can say are those issues taken into count as strategies are developed?

MS. GORMAN: Well, I'm not sure I can speak to any discussions within government.

COMMISSIONER WESSEL: Okay.

MS. GORMAN: What I will say is that, at least it's my view outside of government now, that there's a role here for industrial strategy and incentives in guiding the private sector to build technologies. And that means eventually standards in critical emerging technology areas that are of high importance.

And China has done a version of this where they incentivize standards development, they perhaps have a heavier hand than maybe we would like. But I don't think that means there's no role for government.

And to the extent that there are strategic priority areas, we need to create these incentives, not just to go into them, but also to engage in the standards process, you know. Things like the professionalization of the standards-setting process, the ability for small and medium companies to join standards bodies despite their sort of smaller resources going at the problem.

I think these are things that can help incentivize companies in the direction of critical emerging technology areas that are a strategic national security priority without necessarily inviting government officials to duke it out at these meetings.

COMMISSIONER WESSEL: I see my time has expired. Thank you.

COMMISSIONER FRIEDBERG: Thanks very much. Commissioner Shriver.

COMMISSIONER SHRIVER: Thank you, Mr. Chairman. Thank you to all our witnesses.

Ms. Gorman, I'd also like to start with you and thank you for your recent service and your ongoing work in this important area.

I sort of have a framework in mind when it comes to cooperation with Europe on technology, trade, and investment, and it's that when it comes to the run faster innovations side and promoting cooperation, there's more eagerness when it comes to the defense side, export controls, outbound investment. It's a harder slog.

So a couple of your recommendations, which I happen to agree with, fall into that category. You said outbound investment restrictions, export controls promoting human rights as a more prominent feature in export control policies.

Could you characterize where the divergence might be with the EU, Europe and the EU on these issues? And is my framework roughly right or not helpful at all? Thanks.

MS. GORMAN: No, I do think your framework is roughly right for two reasons. First, that this is really the genesis of EU technological competitiveness.

It is, as I mentioned in the remarks, about becoming a global leader, a regulatory leader, a leader of standards. Less so in terms of the defensive toolkit to control PRC technological advancement and techno-authoritarianism.

But second, I think it's also a matter of capacity and the difficulties of creating toolkits really on the fly at this point that are going to apply to 27 member states. So while that's true that Europe has definitely leaned in harder and run faster on the promotional side, Europe has expressed interest in all of these things that the TTC statement had.

That most recent one had a very high-level, very generic statement about outbound investment screening. The von der Leyen's de-risking speech mentioned it, mentioned investment screening.

But I think the translation between the EU Commission level and the member states is not easy when it comes to developing new investment screening mechanisms that are largely carried out at the member state level.

And on the question I think of an outbound investment screening in the United States, the discussions I believe are farther ahead than they are in the EU. But in those areas where we don't have a plan yet, I think that's where it's really right for this kind of coordination and cooperation.

And we're not really at the point where we're going to I think jointly develop these outbound investment screening mechanisms. Although for my money, I think we should. But

we should at least be coordinating and understanding where the overlaps as each side develops them.

COMMISSIONER SHRIVER: Thank you. Dr. García-Herrero, any thoughts on this topic, particularly where Europe might be on these issues, such as outbound investment reviews?

DR. GARCÍA-HERRERO: Yes. So first of all, we need to realize that Europe doesn't have yet a coordinated outbound investment screening. And it only got one for inbound investment screening in October 2020. So you know, it's very hard to compare the U.S. and Europe as regards to defensive tools.

If I may say, as I mentioned before, we've actually increased our defensive tools to levels that we would never have thought of as kind of a very open trade-prone region of the world.

So but let me go back to the inbound investment screening so that you see what you may get if actually we push towards this outbound investment screening. So that inbound investment screening is only -- it's not compulsory.

So we have had the case of course that everybody knows about in the Hamburg Port where actually the proposal for this coordination, coordinated committee, coordination committee was a no, and it ended up being a yes.

So even if we push that further, and this is what I had at the end of my testimony, defensive measures are not going to be enough, if we coordinated them. I'm not saying they're not useful, but they're not going to be enough.

We need to think of proactive measures to create an ecosystem where we can actually produce what we need and have our standards, whether they are global standards, even better. But we need to think of that second best. Because we might need to end in the second best.

COMMISSIONER FRIEDBERG: Commissioner Price.

COMMISSIONER PRICE: Thank you, and thank you to all of you. I just need a bunch of clarification. Ms. Gorman, you might have actually just answered this in your last two answers, but when you talked about leading by example on your recommendations, what specifically did you mean?

MS. GORMAN: Sure, and you're right, I did not, I actually did not address that in my last two answers. I was talking specifically about, leading by example, I was asked where could the U.S. lead by example here and where should it be a more coordinated approach.

And I think one area that the U.S. could lead by example on is in dealing with autocratic internet apps. So the restrict sort of idea behind TikTok, but creating a risk-based framework that applies not only to one particular app, such as TikTok or maybe Lemon8 next. I know this Commission has looked at Shein and Temu and other internet apps originating from the PRC.

But this is one area where the United States can lead an international coalition that may or may not initially include the EU by example to develop an almost EU-style risk-based approach to dealing with these platforms in our democracies, which goes to the earlier question as well on the PRC's data collection efforts.

COMMISSIONER PRICE: Thank you. Actually, I'm now even more interested in that line. But maybe we'll come back to that.

Dr. García-Herrero, you talked about coordinated specialization on trade. But I wasn't clear if you meant within a current ecosystem or something new.

DR. GARCÍA-HERRERO: Thank you so much. I couldn't talk about trade because I was, you know, I was trying to get my statement to the time allowed. But let me go through the two things which are actually separate.

The first one is basically all about green energy to start. So the idea being that of course we have the IRA on the U.S. side. Now we have actually two acts on the European side, critical raw materials, and then we have net natural -- the Net Zero Industry Act.

The second actually focuses on producing as much as 40% of clean energy in Europe. And the first obviously is about providing or accessing enough critical raw materials.

But the point is we're competing for the same amount of stuff out there, let alone countries that could eventually produce the electric vehicles or you name it that we will not be able to produce in Europe or the U.S. only. And I say "only."

Of course I understand that some of them could be produced, but at the end of the day it's a question of cost and the amount of vehicles you want to.

So for me, coordinated specialization would mean like like-minded countries, and to be defined, would basically operate in this square by which you have innovation. And a lot of G-7 countries could be there.

And then you could have extraction, you could have Canada, you could have Australia, you could have others. And then manufacturing in view would be India. And then you would have refining to be defined. Because that's very hard to find places where you can actually refine.

But the point is you would need to find this ecosystem. I don't mean to say it should be a closed ecosystem. But whoever comes to the ecosystem would need to follow the rules of the game.

And I think we would need to coordinate our subsidies here. Because if we don't, I think, again, we go back to full competition and the best, the big beneficiary of our competition is the PRC. So that's it.

On trade, what I meant to say there was that, and I know this is probably not -- I'm not sure how this applies in the U.S., but to me, we need to come up with some sort of trade agreement as soon as possible with Asia and try to expand as much as possible to the Global South. Because we're losing the Global South.

So if we don't offer trade and investment deals, at the end of the day, they only see the defensive measures. And that's what appears. It basically pushes forward in its narrative. So trade is very, very important as the signal, and I think it would be so much easier, which was my proposal, just to jump, as the UK has done, on the CPTTP.

Why? Because it's easy, it's clear, it's there. And it won't take too much for any of us. The EU doesn't want to do that, let me tell you, whatsoever, because we argue we can do better. But it's not about doing better, it's about doing quick and giving a very, very strong signal that we are there, that's all.

COMMISSIONER PRICE: Thank you very much.

COMMISSIONER FRIEDBERG: Thank you. Commissioner Helberg.

COMMISSIONER HELBERG: Thank you. My question is for Ms. Gorman. The general data protection rule in Europe imposed the set of seven different broad requirements on technology companies. Some of these rules include personal data must be processed lawfully, fairly, and in a transparent manner. Personal data can only be collected for specified, explicit, and legitimate purposes.

Personal data can't be kept longer than needed. And personal data must be processed in a manner that ensures appropriate security, including protection against unauthorized or unlawful processing and against accidental loss.

TikTok has 100 million -- 150 million users in Europe, and last month a former TikTok executive blew the whistle, claiming that the Chinese Communist Party has supreme access to all data held by TikTok's parent company, ByteDance, via a back-door channel, no matter where the data was located.

That TikTok executive also claimed that he had observed ByteDance being responsive to the CCP's request to share, elevate or even removing content, describing ByteDance as useful -- as a useful propaganda tool for Beijing's leaders.

Wouldn't you say ByteDance and TikTok violate Europe's GDPR rule?

MS. GORMAN: I'm not a lawyer, but I do know that TikTok had been under investigation by both the EU data protection authority, as well as at the member state level from respective data protection authorities. So I don't think it's unreasonable to say that there are strong questions and concerns, including in Europe, on TikTok's compliance with the GDPR.

As to the, if I may, as to the second point you brought up about TikTok as a propaganda app, I think that is really something that the U.S., going back to the sort of leading by example question, should take into consideration when developing this framework, that, I know there's a debate about whether data protection is sufficient to address autocratic apps like TikTok, and my view is that it's not because the propaganda piece of this needs to be taken into consideration when considering how such apps should operate in democracies.

COMMISSIONER HELBERG: Thank you. One of the issues that a lot of policymakers across the West both in the U.S. and in Europe struggle with is the fact that our legal system is based on a doctrine of innocent unless proven guilty. In the case of TikTok, a lot of various people have said that there's no smoking gun and therefore policy action against TikTok can't be properly addressed.

Some people have said it's not about a smoking gun, it's about there's a loaded gun, referring to China's civil-military fusion doctrine.

Should the U.S. shift its burden of proof for Chinese mobile apps from default trust unless proven distrustful to default distrust unless proven trustworthy?

MS. GORMAN: So I think that that question depends on the scale of the app. How widely is it used, how much data can it collect. What influence could it have on a population. I do not agree that we should trust by default Chinese internet apps.

That there is a high degree of skepticism and not just because for some arbitrary reason, but because there is a long history of evidence of Chinese espionage that targets U.S. critical technology, U.S. data, and not just U.S. data. And also that tries to influence U.S. discourse around political matters and around geopolitical matters that involve China.

So I think we should have a very index of suspicion. Whether we should not trust by default I think really depends on sort of the power, the risk of the app to our society. For example, I know that the Commission has worked with some of the shopping apps, Shein and Temu.

I think those concerns are really different from the concerns of a TikTok. The concerns there might be about whether forced labor is being used in the products that are promoted to consumers on those autocratic-based apps.

In the case of TikTok, I think the propaganda issue is such a large one. So I would not apply that at the same standard to all internet apps originating from China. I think yes, they all have a data component. But the amount of data collected and the type of data collected is also relevant.

I'm less worried about the data on shopping history, which, not to say that couldn't be used for geopolitical reasons or economic promotion of certain products over another, but I'm less worried about that than I am about when TikTok is promoting election centers and giving candidate information, as it did in the most recent U.S. election with the midterms.

So I think different frameworks, different concerns for different apps, and that's why there's a need to kind of create this more comprehensive framework. But no, we shouldn't have sort of a presumption of innocence, given the very fact-based pattern, not just with TikTok, but with Huawei, with cyber espionage, APT41, and a long history of Chinese efforts to create malign activity in democracies.

COMMISSIONER HELBERG: Thank you very much.

COMMISSIONER FRIEDBERG: Commissioner Goodwin.

COMMISSIONER GOODWIN: Thank you, Mr. Chairman.

Ms. García-Herrero, I wanted to follow up on Commissioner Price's question to you about coordinated specialization to the de-risking efforts. And as you described it, a division of labor essentially among like-minded partners to address some of these concerns.

And my sense, I think a lot of the de-risking efforts, to use that phrase, that the U.S. has taken recently I think were designed and intended to address energy security and transition costs for those communities that will bear a disproportionate burden of the transition to a clean energy economy.

Now, that burden and the impact on those sorts of communities is not unique to the United States. So I'd be curious as to how you would see that coordinated specialization playing out between Europe and the United States to address those specifics.

DR. GARCÍA-HERRERO: Thank you for the question. I think the way to pan this out beyond U.S. and Europe is to make a very strong point on two things.

First of all, as we speak we have an monopsony, close to monopsony in acquisition, and certainly refining, but acquisition of critical materials from China to then refine. It's about, it's going to be over 90% by 2025 of that refining.

So anybody who is actually exporting critical materials would be happy to have more than a buyer, yeah. So we could actually make this very strong point that we need diversification even on the buying side, number one.

That not only the refining could go to the country that is extracting, but also the manufacturing, so think about Chile or others trying to, or Indonesia for that matter, trying to move up the ladder. And making sure that they keep that value added that they're not keeping now. Because China is indeed manufacturing the bulk of it.

And then the other very important thing is the cost. So by having basically nearly a monopoly in production which then feeds the world with these clean energy products, we could be stuck with the wrong technology.

We could have basically technological dependence. And by having a second ecosystem, what we ensure is that we actually have more choices in terms of technology because we have many other areas producing clean energy.

This is a simplification, but I think basically it makes that argument that others could indeed be in favor of a second ecosystem. And for that we need to be inclusive, that's very clear. It's actually in our own interest to be inclusive because that will reduce the cost of decarbonization globally for us.

And by the way, it will also allow more space for China to decarbonize, which frankly speaking, given since not this Two Sessions but the previous one when China lifted the yearly

targets for emissions, we don't have much information what was going on with emissions in China. So we would actually make China have more space for its own decarbonization.

So in that regard, I think it's kind of a win-win or it can actually be portrayed as a win-win strategy beyond the U.S. and China -- the U.S. and Europe, sorry.

COMMISSIONER GOODWIN: Thank you. Dr. Rühlig, I want to touch very briefly on technical standards. As Commissioner Wessel alluded to, we did have a hearing on this three years ago and made some recommendations to Congress.

I think, to my fellow Commissioners, China's approach to technical standards will seem pretty familiar. Like the law, I think they view these standards as tools to achieve strategic interests and tools of industrial policy, market access, or simply to accomplish certain geopolitical objectives.

As part of our recommendations three years ago, we recommended Congress take steps to elevate the importance of these standards and coordinate U.S. policy across different sectors. And recommended setting priorities, mainly identifying those standards and those standard-setting bodies with the greatest potential impact on competitiveness and national security. From European perspective, what standards and bodies do you think Europeans would prioritize? It sounds like from your testimony critical infrastructure would probably make that list, but curious as to what else in 20 seconds you might identify.

DR. RÜHLIG: Thank you very much. So I mean, from the European perspective the prioritization of certain standard-developing organizations is very easy. I mean, there are three standardization organizations internationally that the European Union recognizes as such. This is -- the International Standardization Organization, ISO, the International Electrotechnical Committee, IEC, and it is -- the International Telecommunications Union, ITU.

At the same time, of course this is sort of the standard policy answer here, that this is what Europe recognizes. But there are of course a number of other international SDOs that are standard-developing organizations that are on Europeans' minds.

This is certainly the third-generation partnership project, but it's also actually U.S.-based industry consortia such as IEEE, IETF. So there are quite a number here to name. But I think it may be sort of the most relevant actually to identify the criticality of technologies and from there sort of trace where are actually the decisive standard-developing organizations internationally that really do shape the standardization landscape in those fields, rather than sort of start from the SDOs.

And I think what we feel -- what we see is that ITU gets lots of credits and lots of attention, not just in the West but also in the Global South, while sort of if you look at the companies, many of sort of really see ITU as sort of rather secondary and the real technological stuff being developed in truly privately driven standard-developing organizations.

COMMISSIONER FRIEDBERG: Thank you. Commissioner Cleveland.

COMMISSIONER CLEVELAND: Thank you, Chair Friedberg.

I actually want to follow up on this very question, so I appreciate Commissioner Goodwin raising it. In your testimony, Dr. Rühlig, you indicate that between 2015 and 2019, China gained secretariat leadership positions in the ISO and IEC in rare earths, foundry machinery, transaction assurance, e-commerce, smart grid user interface, low voltage auxiliary power systems.

And then in 2022 alone, they gained ISO and IEC secretariat positions in five of nine new leadership positions, including on brain-computer interface, enhanced oil recovery, heat supply and hydro power.

These all seem pretty important. I'm wondering where they haven't gained leadership positions in the -- I mean, that's sort of a separate question. But I'm wondering what the practical implications are, because you did such a beautiful job on explaining why USB is a relevant standard. That to me makes it very, very practical.

But in your view, what are the practical implications of the fact that the PRC has gained in 2022 alone five of nine new leadership positions in fairly significant areas? Does this mean they're influencing fees, licensing, patent enforcement? What is it that this means? And then secondly, are there any differences between the EU and Europe -- sorry, the U.S. and Europe when it comes to the fact that China has executed this strategy?

DR. RÜHLIG: Sorry, could you repeat the second question?

COMMISSIONER CLEVELAND: Right, so this seems to be a pretty aggressive strategy that can align with China's industrial policy. And I'm curious, in the context of this hearing, whether or not you view the U.S. and Europe as aligned in concern when it comes to this Chinese strategy, or are they on the same page, or are there differences?

DR. RÜHLIG: Yeah, I start with the latter. Uh, I actually think we are quite aligned in sort of the awareness. At roughly a similar time I think the technical standards settings, maybe the U.S. is a bit ahead of Europe as -- in many cases.

But I think at roughly the same time the issue of technical standards setting and the realization that China is really aggressively and also sort of proactively striving to get influence on technical standards, but particularly on those of strategic relevance I think has come to the fore.

And if you compare the U.S. strategy that Ms. Gorman mentioned before to the EU strategy that was published in February last year. I think both sort of grapple with the same dilemma. Both commit to a private-sector-led approach. In sort of the analysis of China's behavior, I think both are really very similar.

To what extent we sort of align then in the practical consequences we draw from that, I think to some extent still remains to be seen. Because with all due respect, I think the U.S. strategy is sort of far less concrete so far. So it lays out sort of the fundamental thinking on the U.S. side. And this is certainly the same as on the EU side.

But we do see that the EU is already implementing that, trying to actually -- it's specifically with relation to ETSI, the European Telecommunications Standards Institute, limit the influence of non-European companies. That is mainly meant to target Chinese multi-nationals. But it's also targeting U.S. companies. So there is quite some cleavage certainly on that front as well.

So to what extent then actually our policies actually align and to what extent sort of actor-agnostic policies that also hit at transatlantic partners is certainly something to look into. But on sort of the analysis side of things we're pretty much aligned. On the implications, I only have 35 seconds, but sort of it's really all of it.

So if you grab a technical leadership position in such critical fields, which are certainly sort of by no surprise, and that China is successful, by the way, that China is more successful in one year than another, is also due to the fact that in one year there may be more technical committees being newly formed. So that is also China is picking up opportunities. But the implications from taking up the leadership position at first is mostly agenda-setting power, which is quite of enormous importance.

If you think of the national security element, what should be standardized and what not may have -- that is agenda-setting at its best, may have actually very concrete national security implications because that sort of reveals what should then sort of be taken under international review, what should be actually left for proprietary technological solutions to different companies. So that could have enormous implications.

Which proposals are being put onto the table at what time, that could of course very much favor Chinese proposals that can come with implications for the underlying standard essential patterns. If you put a proposal on the table, it's very likely that your patents will be included and not those of your competitors.

So I think on all the four risk areas, that can have massive implications from national security to the competitiveness angle. Values, if the relevant standards do differ sort of in the degree to which they defend or implement certain values. So it's really on all fronts that agenda-setting power does -- or can at least unfold in enormous impact.

COMMISSIONER FRIEDBERG: Thank you. Commissioner Borochoff.

COMMISSIONER BOROCHOFF: At the risk of just piling on, I also was present for the 2020 hearing on standards. And both before and after that, it alarmed me. And a large part of it alarmed me much in the way that you are.

There was a lot of discussion in the background reading about the stacking of the deck in these organizations where not necessarily an insidious way but just in a very directed way. And the Chinese Government decided to actively try to get their folks into the chairmanships of various committees and subcommittees.

And what we learned that I'm still remembering was it affected competitiveness in a big way. You know, if you change how far apart the threads are in a screw, you can make it where an entire factory has to retool in America.

And in the case we learned that air conditioning, medical devices, refrigerators, all kinds of things you wouldn't think about, and then all of a sudden that goes on to parts that go into aircraft, parts that go into nuclear weapons, parts that go into everything involved in national security are affected by a screw thread, by the manner in which a piece of equipment is designed. So you mentioned something that really struck me. You mentioned the mapping of the power structure of these organizations. You know, I've seen that done politically where people go in and try to figure out who the influencers are.

Are you familiar with anyone who has actually mapped these organizations, say over the past five to ten years, or are actively doing that now to take a look at who's becoming the most influential in these organizations. Not in a general sense, I mean in a specific sense.

DR. RÜHLIG: Well, NIST was tasked to come up with a study for Congress to actually map -- or actually exercise that, what you just request. I think they have done a good job. Certainly I'm happy to forward that study to you.

But it's mostly related to ITU and ISO. And I think that sort of -- but that's sort of no criticism. It grasps the problem very well I think. What we probably need to do is we can't wait for this one study, it will be a book with several thousand pages.

What we'll probably need to do is expand on such analysis, both in terms of sort of the standard-developing organizations, including others. Because already from that study you can very well see that China's influence on ISO and that in ITU differs significantly.

But I think we should probably also start looking more sort of in horizontal studies that delve into specific technologies that we deem particularly critical, identify, and then sort of do

the necessary analysis together with industry representatives to understand where are those technical standards being developed.

And pool actually technical expertise with political expertise. So with China-country specific China expertise to sort of really understand well, who is sitting at the table. What is the technical merit of that.

Trying to do this in a project in the European Union at the moment that's called Digital Power China that I have the privilege to participate in. But we try to pool that. It's not simply related to technical standards. But if you ask me whether this one project is up to do the entire job, certainly not. I mean, it hopefully can contribute to that, but we'll probably need to expand. And I think you really nailed it. The adaptation costs, I wasn't able to sort of mention that. It's not just the patenting, the licensing fees, but it's also adaptation costs.

I mean, if you see a new standard emerging that is not compliant with your own technology, you need to decide, do I withdraw from that specific market, or do I really redesign my product, my production to actually comply with that international standard. That can involve enormous adaptation costs, you're absolutely right, I agree.

COMMISSIONER BOROCHOFF: Thank you for that. I knew that NIST was working on that and I didn't know they'd finished it. I hope you will forward it to us. And I think, as you alluded to, it directly looks at the lower-level risks, you know, general manufacturing. But what they were concerned with when they first started was the higher-level risk.

And I'm glad that you all are doing what you're doing in Europe. I hope that gets -- even if you can't do it all, any start would be helpful. Thank you.

COMMISSIONER FRIEDBERG: Thank you very much. Chair Bartholomew.

CHAIRMAN BARTHOLOMEW: Thank you very much. And thank you to our witnesses for making some very technical issues more understandable to those of us who are not experts.

I'd like to talk a little bit about data, though, and that is from my understanding of GDPR, it's about controlling the collection of data of individuals, correct? And yet of course we know that the Chinese Government collects massive amounts of information on its own citizens. But controls the dissemination of the data.

And if I have that correct, I'm just trying to understand how those different views of data play out, both in any standard-setting bodies, but just in sort of implementation of regulations. Nobody wants to step up and answer?

MS. GORMAN: I'm happy to take at least a partial stab at that one. I think the reality is that we are seeing a trend towards more data localization, which is the Chinese model, where data that is collected on and about Chinese citizens stays in China. That must be housed in China.

GDPR does not do that, does not take that as localized an approach, but rather restricts the ability to collect at scale data on citizens without a strong need to do so. And sort of this is what we saw when Italy's data regulator put a pause on ChatGPT, it was actually for this precise reason.

That there was not, at least in the view of that regulator, a well-defined articulation for why ChatGPT needed to collect all that information as part of its training model, which included data on EU citizens.

So certainly very different data approaches between the EU approach and the Chinese model. I think the -- and of course in the U.S. there isn't a broader federal data privacy bill. It's

something we've been calling for for some time and are really hopeful that maybe one day we'll get.

But I think, yeah, there is a trend toward more data localization, more of the sort of the Chinese approach, housing data individually in countries.

What the G-7 and especially Japan has really pioneered as a model that I think will be the most effective one is this concept of data free flow with trust, where you can be very judicious about the data that you share with foreign competitors such as China. But very free-flowing in the data that you share with allies and partners.

There is a benefit to open data, open exchange in terms of certain open scientific data. But also interoperability among like-minded partners.

And so that's the approach that I hope that democratic nations go to, in contrast sort of to the heavily localized approach, even as we control for risks of espionage that come from autocratic actors like China and chiefly China around data that regards business information and personal information given especially its ability to influence populations.

CHAIRMAN BARTHOLOMEW: Lindsay, do you think that that Japanese model would preclude any restrictions on the collection of data here, which of course we don't -- we don't have? But if you move to something like that, does that serve as a disincentive to do anything to limit the amount of data that's being collected on individuals here in the U.S.?

MS. GORMAN: I'm not sure about that. I don't think necessarily. I think that's more -- it's more about once it's collected, where it stays and where it can go. I think you would need sort of separate regulations as GDPR has if you really wanted to restrict the collection.

You could imagine, though, building into this concept of free flow with trust, a specification if you wanted that said part of this sort of circle of trust when it comes to data means we're not going to use data for x,y, and z purposes, such as for example social scoring architectures.

So I think there's a way to build that in terms of the criteria of the sort of free flow with trust. But I don't think on its face the method and the means by which we would share data necessarily has implications for how and in what manner it would be collected within individual countries.

CHAIRMAN BARTHOLOMEW: Thank you. Dr. Herrero?

DR. GARCÍA-HERRERO: Yes, thank you. I just wanted to add exactly basically in line with the comment made that free flow of data among like-minded partners is actually essential in anything like coordinated specialization for green energy.

Because one of the key advantages that China has to produce solar panels cheaper than anybody else and in a very efficient way is that indeed it has all of the data even on solar panels that are used in Europe. And that's how basically it increases the efficiency. And it can monitor those solar panels and actually repair them in need.

So if we were to build something like that without sharing data and going into a model of localization, we would not be competitive because the size would not be the same.

So I do think the data, the cross-border data agreements in anything that we want to do together is essential for anything we produce to become competitive towards what China is producing today.

CHAIRMAN BARTHOLOMEW: Yeah, just ask one more question to follow up on that, which is we talk a lot about reciprocity. Are any of those discussions on cross-border data insisting that when the Chinese have access to our data, that we should be able to get access to their data?

DR. GARCÍA-HERRERO: Well, not unfortunately. We are far from reciprocity in many, many ways including data. But I think this is the point, that the minute we work on something where we share data, then reciprocity is easier to apply because the amount of data could be comparable. Here this is also about the amount of data that we will be able to put together.

So we can't really think, I mean, and if you're a very small country even less so, of reciprocating. Because your data anyway would be so small compared to what you would have access to basically.

CHAIRMAN BARTHOLOMEW: Thank you very much.

COMMISSIONER FRIEDBERG: Thank you. Commissioner Mann, I left you out, I apologize.

COMMISSIONER MANN: I just have one question for Dr. García-Herrero. I wanted to pursue this, your interesting idea of coordinated specialization and come back to that. But I want to know how it's going to work. I mean, who's going to do the coordinating? Is this really feasible either diplomatically or politically?

I mean, even industrial policy has proved to be difficult in this country. Who's going to tell European company X that they need to hold back and let the Americans do it, and who's going to tell American company Y that they need to give way to the Europeans?

DR. GARCÍA-HERRERO: Absolutely, that's the key. And let alone the fact that we also need to incorporate, you know, still like-minded actors but maybe not as well, you know, with less coordination basically than we already have for the UN and the U.S.

And understanding that I think one could -- and this brings me to standards, by the way. Because I think the whole idea is to basically create a set of agreements, it could be of the model subsidies. Yeah, it could be on a tech transfer, it could be on basically trade agreements. Because at the end of the day, imagine we have India producing most -- all of the solar panels we need. Well, without a trade agreement, this is going to be very costly anyway because you would have to have, you know, important tariffs that you would need to have if you were thinking of this ecosystem.

So I would argue that you could think of, you know, a trade -- well, of course some kind of TTC at the broader level with the specific goal of creating an ecosystem for clean energy. And where whether the subsidies or the tech transfer or the trade deals to reduce the amount of tariffs wherever that is left, whether it's, you know, price or even quantity tariffs of any sort or any barrier would be lifted.

And then you would need to let the market work. And you cannot just do all of this in a planning -- on a planning mode. The whole idea is to compete but not to repeat what the PRC is doing.

So that I understand it's difficult, but I don't think we can do this on our own because the de-risking strategy for each of us would be too costly because it's just an individual strategy.

COMMISSIONER MANN: Thank you. I'll yield my time. Go ahead.

COMMISSIONER FRIEDBERG: Thank you very much. It seems to me that all three of you in different ways are describing and advocating the construction of what I would call for lack of a better term value-based blocs.

So Dr. Rühlig, we're clearly not going to persuade China to accept all of our standards. They are attempting to get others within their sphere to follow their standards. So the world is likely to be divided to some degree.

Ms. Gorman, this idea of free flow with trust seems to me to describe a world in which the cyber spheres of democratic countries are somewhat insulated from those of autocratic countries, which are very heavily insulated from the democracies.

And Dr. García-Herrero, this idea of coordinated specialization, in order for it to work, it seems to me there's going to have to be some protection of this new market consisting of democratic countries in order for them to be able to be shielded to some degree from very low cost subsidized products coming from China.

So I wonder if all three of you could respond to that characterization. And Dr. García Herrero, perhaps we can start with you.

DR. GARCÍA-HERRERO: Yes, absolutely, you need some -- you need to be shielded, because first of all you are starting from scratch nearly, yeah. I mean, I just, you know, for the numbers of how much China is exporting in green energy to start.

So it's clearly in that field if you don't protect your market at the beginning, kind of infant industry argument, you won't be able to make it. Let alone having a big market, because that's where you can have economies of scale, you can use, you know, again, flow of data, et cetera, to make sure that also the innovation is the right innovation. You're not depending on somebody else's innovation.

So yes, you would need to be somehow protected in that ecosystem, totally.

COMMISSIONER FRIEDBERG: Thank you. Dr. Rühlig?

DR. RÜHLIG: Well, I'm concerned that I have to somewhat agree with you, because I think, as I tried to emphasize, the value of technical standards is greater sort of the broader its scope is. So I think -- I don't think that we should give up trying to integrate China into existing institutions.

And it somewhat leads me back to something Commissioner Wessel mentioned and I wasn't able to respond. Maybe if there's time I could come back to that. And that's sort of where there is competence, and China does have enormous technological innovation power, there will be impact in terms of technical standards.

So if we don't integrate China, that's the other part of the story, then China will spread those standards outside the institution. So I don't think that we are at a point where we should sort of fully give up and sort of just say, well, let's sign onto the value blocs.

But at the same time, I think we should rather sort of define the conditions in our interests and values and get sort of quite straight under which conditions are we trying to accommodate the Chinese into the system. I think we should rather sort of be clear in where we are unwilling to make any compromises, where we should be sort of very clear.

But sort of fulling giving up on the Chinese, I mean, we do sort of see a somewhat liberalizing trend in China's standardization policy.

And we should also always keep an eye on the Global South. They don't want to choose either side. So wherever we can actually come up with global standards that do not violate our -- and undercut our values and norms, then I think it's good to have China on board. But I'm afraid it may indeed go into a direction that you've just described.

COMMISSIONER FRIEDBERG: Thank you. Ms. Gorman.

MS. GORMAN: Yeah, I mean, I think we -- look, in China we have an autocratic actor that is actively trying to model the world's technology ecosystem in its own autocratic image.

And the approach that democracies have historically taken of let's build the technology and because these technologies connect people, because they allow for discourse and democratic activity, they will inherently be good for democracy.

And I think with the internet we've seen that approach just doesn't work. And that's why it is important to be building our democratic values into the next generation of technologies. If you look at the draft rules that China recently put out on generative AI, they state explicitly that these AI systems, the chat bots, the Chinese versions of the ChatGPTs, need to comply with Chinese core socialist values and not infringe on state stability and national unity and have to comply with censorship rules.

I don't think that's a model that is good for a free and open world. And I would just add, I see we're running out of time a little bit, that I don't think that necessarily means we have to exclude actors that maybe are on that democratic/autocratic spectrum.

No democracy is perfect, especially not the United States. And what we should be all striving to is to put forward a democratic offering, including to the Global South, that is compelling and that empowers, when we were talking around data, it empowers countries to have ownership of their own data.

I think that is sort of the open democratic model that we should be looking towards and trying to provide that counter to an autocratic model that is ultimately about enriching the power of the Chinese Communist Party, whether that is siphoning and suctioning up data from the European solar panels, or from the African telecommunications infrastructures.

COMMISSIONER FRIEDBERG: Okay. Thank you very much. Unfortunately we're out of time. I want to thank all of our witnesses for their excellent presentations. We're going to recess for an hour. We'll resume at 2:05, is that right? We'll be back at 2:05.

(Whereupon, the above-entitled matter went off the record at 1:05 p.m. and resumed at 2:06 p.m.)

PANEL III INTRODUCTION BY COMMISSIONER AARON FRIEDBERG

COMMISSIONER FRIEDBERG: Ladies and gentlemen, good afternoon. We're going to resume with our third panel which will examine European approaches to dealing with China on strategic issues. Compare European approaches to the U.S. approach and explore areas for Transatlantic cooperation.

We're going to start with Dr. Janka Oertel who's appearing virtually. Dr. Oertel is the Director of the Asia Programme and Senior Policy Fellow at the European Council on Foreign Relations. She'll provide an overview of Europe's approach to China on strategic issues.

Next, we'll hear from Ms. Veerle Nouwens, the Shangri-La Dialogue Senior Fellow for Indo-Pacific Defense and Strategy at the International Institute for Strategic Studies. And she'll examine European approaches to Taiwan and the Indo-Pacific.

Lastly, we'll hear from Mr. Ivan Kanapathy, Senior Associate and Freeman Chair in China Studies for the Center for Strategic & International Studies. He'll provide a U.S. perspective on coordination with European allies on strategic issues related to China.

Thank you all very much for being here and for your testimony. I'd ask all the witnesses again to please keep your remarks to seven minutes to preserve time for Q&A. Dr. Oertel, welcome. It's good to see you again even if only virtually. We'll begin with you.

**OPENING STATEMENT OF JANKA OERTEL, DIRECTOR, ASIA
PROGRAMME, SENIOR POLICY FELLOW, EUROPEAN COUNCIL ON FOREIGN
RELATIONS**

DR. OERTEL: Thank you very much. Commissioners, members of the committee, thank you for the opportunity to testify before you today. The panel is entitled Convergence and Divergence on Strategic Issues.

And as a proper academic, I will start out by saying that there's probably a fair degree of divergence about what exactly those strategic issues are. But let's maybe focus on three where we can more or less agree: economic security, Ukraine, and Taiwan. The term "economic security" is now being embraced across Europe.

The EU is working on an ambitious economic security agenda that is supposed to enhance its immediate readiness to sudden changes in the geopolitical environment. It is designed to create greater resilience, identify gaps in legislation, and give it the knowledge and tools to deal with the world in which rule following cannot be expected as the default in the interactions between states any longer. The current process will first and foremost provide the EU with improved situational awareness and economic intelligence to address regulatory blind spots and enhance its defensive capacity.

There's enormous transatlantic convergence on the respect of defensive side of the economic security agenda while there's greater hesitance among the EU and its member states than on the U.S. side to devise more offensive or proactive measures, including the use of sanctions and entity listings. The question of outbound investment screening is seriously debated. The most likely outcome will not necessarily be an EU wide new instrument or mechanism but rather individual legislative action in member states from broadening the definition of do we use technologies or enhancing export controls?

The area in which there's at least rhetorically divergence between the U.S. and various European governments is in the realm of halting China's advances in the technology space. U.S. export controls on advanced semiconductors is seen by many observers in Europe as an attempt to keep China down or slow its development on high tech innovation. Only rarely is the national security perspective invoked.

But this bit is slowly changing and it brings me to the second strategic issue, Ukraine. As a sort of rule of thumb, one can currently argue that the closer you geographically get to Ukraine's border, the clearer the impact of the war on the perceptions of China in an EU member state with the exception of Hungary. Especially Central and Eastern European countries have hardened their approach more significantly.

China's failure to condemn the blatant violation of Ukraine's territorial integrity and sovereignty and the continued support for Moscow hits a particular note among Central and Eastern Europeans. But it is also affecting Euro-China relations more broadly and has brought the notion of China as a security challenge much closer to home. Something that if I may say so has not been fully realized in Beijing yet just how damaging the continues support for Russia is for overall relations with European countries.

It is current unclear where European red lines for Beijing support for Moscow exactly are and how proactively this should be addressed. The latest poll that my colleagues of the European Council on Foreign Relations have conducted in eleven EU member states is pointing towards one of those red lines at least. It comes to the conclusion that a plurality of 41 percent of

respondents are in favor of sanctioning China if China were to deliver ammunition or weapons to Russia, even if this meant serious economic harm to Western economies.

In Sweden, 56 percent of respondents were in favor, 51 percent in the Netherlands. Sweden and the Netherlands are both states in which a more public debate about the relationship to China has already taken place and where domestic public opinion is more influenced by negative experiences and more alert because of strategic challenges. Think Gui Minhai or ASML.

All countries polled show a high number of 20 to almost 40 percent undecided respondents to this question which shows that there's a huge need for clearer communication of political objectives and risk assessments by European leaders. Europeans out of their own interest should not want to see China arming Russia to help win the war in Ukraine. Policymakers could also make clear that whatever Washington does or does not do that Europe is willing to act on this by itself which would be a welcome demonstration of European capacity to act and strategic unity.

But, there's a much bigger debate about capacity and willingness to act when it comes to the strategic challenge posed by a Taiwan contingency. Taiwan did not used to be a feature as a topic of key strategic interest for EU member states. It does feature now though.

While the careful rhetoric at the EU level and in many member states as well as the almost religious focus on the One China policy is unlikely to change anytime soon, the assumption that this would automatically lead to inaction in case of a military escalation in the Taiwan Strait is following a logic that no longer holds. Even though individual EU member states are hindering a more outspoken EU policy on Taiwan for now, Europeans have demonstrated a remarkable amount of unity on Ukraine and created an unexpected plethora of actions and sanctions to respond to Russia's invasion.

And unity on the approach to Russia was also absent before the invasion at the EU level, Nord Stream 2 being the ultimate embodiment of that. Public scenario planning and the creation of a concrete list of sanctions that would be waged upon Beijing, however, is not what European member states mostly see as the most sensible option right now. The unease in dealing with the strategic challenge publicly is clearly showing also in public opinion. Our recent polling shows that a majority of European respondents, 62 percent on average polled in all of the respective countries would be in favor of a neutral stance rather than supporting the United States which only 23 percent would on average be advocating for.

European policymakers in key member states seem to have so far failed in making clear that neutrality will not be an option as desirable as it may feel to many. Despite the growing degree of convergence around a whole series of China-related questions, true transatlantic alignment and convergent in rhetoric and policy will continue to be complicated. Geopolitical uncertainty ahead of the U.S. election in 2024 is growing and with it a desire to hedge and wait, the opposite of decisive leadership and proactive transatlantic agenda setting that seems necessary from the European end.

To overcome the remaining dangers of resorting to inaction in face of the challenges posed by China, transatlantic trust building remains key. Overall, it is not unity among European leaders that I would currently be most worried about. Yes, the highest degree of transatlantic convergence on China is currently between Brussels and Washington.

But member states are also broadly aligned. The largest divergence within Europe is likely between policy leads and public opinion. And I think we should discuss about that a little bit further in the discussion. Thank you very much.

**PREPARED STATEMENT OF JANKA OERTEL, DIRECTOR, ASIA PROGRAMME,
SENIOR POLICY FELLOW, EUROPEAN COUNCIL ON FOREIGN RELATIONS**

“Europe-China relations on strategic issues and transatlantic cooperation”

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Until not too long ago, European leaders cynically speaking broadly regarded China as a business opportunity with a human rights problem. Since 2018 this has been changing markedly and the speed with which relations have deteriorated across almost all EU member states can hardly be overstated.¹ The policy choices of the Chinese leadership are increasingly understood as a systemic challenge among European observers – from governments, to parliaments, the media, and to a degree the European public. The level of attention spent on China across EU countries has been constantly growing over the last decade, a constant and consistent rise that has much more to do with Chinese policies at home and abroad than with the outstanding ability of the EU member states and institutions to keep their focus on a strategic issue for an extended period of time. At the EU level, which is prone to distraction and changing priorities, Beijing has successfully managed to keep itself on the top of the agenda for five years and has contributed to a significant convergence in the analysis and policy action across the Atlantic on a range of strategic issues from security questions in the Indo-Pacific, to economic security, green industrial policy or digitalization roadmaps. Despite the fact, that the issue of highest strategic salience, the Russian invasion of Ukraine, is at the top of most policy makers’ agendas in Europe, the war has not put the question of how to relate to China on the diplomatic and strategic backburner. Quite the opposite: Because of Beijing’s support for Moscow, it has brought the idea of China as a challenge to European interests even closer to home.

Recent visits to China

The most prominent visits over the last few months were conducted by German Chancellor Scholz, Spanish Prime Minister Sánchez, French President Macron, European Commission President Ursula von der Leyen and Annalena Baerbock, the German Foreign Minister.² German Chancellor Scholz took the initiative to be the first European leader to travel to Beijing even before the end of the zero-Covid measures of the Communist Party Leadership. He thus had to scale the program down to a mere daytrip to Beijing with no overnight stay and with accordingly limited opportunities for larger outreach. His trip was criticized heavily at home and across Europe³ for its timing right after the 20th Party Congress. Expectations were low. The main point of the journey was to re-establish a direct channel of communication – and satisfy growing pressures from the German business community to send a signal of engagement. Scholz also delivered the clear message that direct Chinese military assistance to Russia would

¹ For a more detailed overview of the developments until 2020 please refer to my previous testimony at https://www.uscc.gov/sites/default/files/2020-06/Oertel_Testimony.pdf.

² In chronological order: Scholz (November 2022), Sánchez (March 2023), Macron and von der Leyen (jointly in early April 2023), Baerbock (subsequently in mid-April 2023).

³ See <https://www.tagesschau.de/inland/innenpolitik/deutschland-china-111.html>.

have significant consequences for Beijing's relationship with Europe. Beyond the reiteration of Beijing's stance that nuclear war shall not be fought and cannot be won, concrete deliverables that Chancellor Scholz could bring home were limited. A few months later, and after the zero-Covid policy was abruptly ended in China, Spain's prime minister Sánchez⁴ followed Scholz' example on March 30, 2023 and travelled to China. After years of video-diplomacy he spoke at the Boao Forum, China's version of "Davos" on the island of Hainan. He called for market openings for European companies and reciprocity in trade and underlined that no one wants economic fragmentation or war. On Ukraine, however, his message was aligned with the other Europeans in terms of asking China to make a positive contribution, use its influence on Putin, and refrain from any direct military support.

A change in tone and heightened clarity was provided on the same day in Brussels with Ursula von der Leyen's notable China speech. She has now made relations with China one of her focus areas and is trying to rally member states around her agenda. She was much more straightforward in her criticism of Beijing's current economic and political approach. Relations with China sit at the nexus of the top three priorities of her tenure as commission president, namely a more geopolitical Commission, digitalization, and the green transition. Remaining competitive in light of Chinese market distortions is at the heart of all of these aspects. In her speech she set out a very clear analysis of the challenges China poses and a path forward along the lines of de-risking and diversifying. The speech was an exceptionally sharp and bleak assessment of where she sees the Chinese Communist Party's priorities: security and control, interdependence only as a means of leverage, close relations with Moscow, and an overall hardening of China's strategic posture. With her speech she gave European leaders the opportunity to align behind new language to describe reality and complement as well as rebalance – or even reinterpret - the existing trinity of cooperation, competition and systemic rivalry.⁵

Annalena Baerbock echoed this approach very closely during her visit to Beijing. She was received by both Wang Yi and Qin Gang and the general tone of the exchanges has been described as constructive and frank – which was seen as a reasonable basis for the upcoming government consultations, which are scheduled to take place in Germany on 20 June 2023 after a hiatus of in-person meetings in this format due to the coronavirus pandemic.

Emmanuel Macron's public messaging seemed to be different, with an interview given on his return flight creating serious irritation among observers in Europe and beyond.⁶ While later put in perspective, his remarks regarding Taiwan created a wide backlash. In hindsight, this was particularly unfortunate communication, as the trip was otherwise indeed part of a coordinated European approach. Put together with the parallel presence of EU Commission President von der Leyen, who joined upon Macron's invitation and thus was able to get otherwise rare face time with President Xi, the European calculus was following a dual track approach: Signaling willingness to speak, while being firm on matters of economic and national security. Macron seemed convinced that the attempt to make an attractive offer to the Chinese government had to be undertaken. This offer could include European good-will, cooperation and economic engagement as well as marginal distancing from the United States in the rhetoric, in return for Chinese market openings on agriculture, support on Ukraine, climate finance, debt restructuring

⁴ <https://www.reuters.com/world/spain-pm-urges-asia-open-market-western-companies-2023-03-30/>

⁵ Speech by President von der Leyen on EU-China relations to the Mercator Institute for China Studies and the European Policy Centre, 03/30/2023, https://ec.europa.eu/commission/presscorner/detail/en/speech_23_2063.

⁶ Emmanuel Macron : « L'autonomie stratégique doit être le combat de l'Europe », 04/09/23, <https://www.lesechos.fr/monde/enjeux-internationaux/emmanuel-macron-lautonomie-strategique-doit-etre-le-combat-de-leurope-1933493>

for developing countries and intensified senior level exchanges. Underscoring that Europe speaks with its own voice, which is different from the United States is central to the French agenda on European strategic autonomy, but is not shared widely among other EU members, with actors such as the Swedish prime minister Ulf Kristersson refusing to even refer to the terminology and rather emphasize the need for strategic unity within Europe and strategic partnership with the United States.⁷ There is, however, convergence among European leaders and across the Atlantic that enhancing European capacity to act – also collectively – could enhance the broader transatlantic posturing with regard to the challenges posed by the Chinese leadership.

Trajectory of EU-China relations

The daily ups and downs of the relationship and the media reporting are confusing for outside observers and arguably even Europeans themselves. 27 member states seem to make their own policy choices, find their own interpretation of the existing terminology, have their own meetings and the EU institutions themselves are prone to creating a cacophony of positions if looked at in snapshots. Therefore, it is necessary to step back and look at the broader developments over the entire arch of the last five years to make sense of the developments. When doing so what becomes visible is a more or less linear trajectory: Europe is paying more attention to China, it is showing greater readiness to deal with the challenges posed and is much more united than it may seem.

Readiness

Europeans are not only talking more about China they are also acting. The packages and policies agreed upon with a clear eye towards China (although formally “country-agnostic”) are impressive: inbound investment screening, the anti-coercion tool, foreign subsidies regulation, the 5G toolbox, new due diligence directives, the Critical Raw Materials Act, outbound investment screening plan, as well as the Carbon-Border Adjustment Mechanism (which has generated significant concern in Beijing) – all of this is real, impactful and here to stay and has significantly enhanced Europe’s ability to respond to the changing geopolitical and geo-economic environment it is facing. The changes are driven by hard economic and political realities, not by ideology or moral considerations. The EU’s – and now also Germany’s – trade deficit with China is growing significantly. German exports to China are down, foreign direct investment into China from Germany is up, imports from China have increased while sales of German companies in the Chinese market in key industries, namely the automotive sector, are slowing. In 2022, China was only Germany’s fourth largest export market, significantly behind the United States, France, and the Netherlands, while it continued to be the largest source of imports with a significant margin to the second largest source, the Netherlands.⁸

Unity

The litmus test for European policy making is always the almost magic notion of “unity”. “We need to work together on these issues and speak with one voice” is probably one of the most used and least internalized sentences circulating in Brussels and member state capitals. In the end, unity on almost anything of value and importance is difficult and speaking with one voice

⁷ Speech by Prime Minister Ulf Kristersson at the Stockholm China Forum 05/30/23, <https://www.government.se/speeches/2023/05/stockholm-china-forum/>.

⁸ https://www.destatis.de/DE/Themen/Wirtschaft/Aussenhandel/_inhalt.html#sprg475758. The most important export goods for Germany are still cars and car parts, machinery goods and chemical products – areas in which Chinese companies are growing in importance on the local market, particularly in the realm of electric vehicles, see: https://www.destatis.de/DE/Themen/Wirtschaft/Aussenhandel/_inhalt.html#sprg475758.

always hard for a group of 27. It is thus unsurprising that on an issue of such relevance as relations to China, divergences continue to exist. Remarkably, however, the analysis of what kind of challenges China poses have increasingly converged. Disagreement persists on what timeline is anticipated, on individual risk assessment and on how exposed one is on a national level to the identified risks.

Zooming out again though from the daily ups and downs of the media reporting, the assessment of EU unity has a surprisingly good track record. On all major decisions regarding China, including on the first set of sanctions brought against Chinese actors since 1989 on the basis of human rights violations in Xinjiang, EU unity held. And it continued to hold over the renewals, despite (or maybe also because of) Chinese countersanctions. While discussions within Europe about Chinese coercive measures against Lithuania were initially all over the place, the result was in the end an actual tool that was created to have collective measures at hand once (and not *if*) something similar happens again. After the Dutch government decision to cooperate with the US on export controls on advanced semi-conductor production capacity, relations with Beijing will be tested again. The question of potential retaliation that Beijing could take against the Netherlands might be the first test case for this new anti-coercion mechanism in case the Chinese leadership decides to take action against the EU member state. Europeans now are in principle more ready than ever before to take retaliation head on – which is intended to have a deterrent effect. So far, the reactions from Beijing to a tightening of the regulatory framework, the introduction of national security provisions (as e.g. with regard to telecommunication infrastructure in several countries) has been relatively modest and more bark than bite. The question is, however, whether Beijing will continue to be cautious in its response as convergence among transatlantic and G7 partners on key issues of strategic relevance is growing.

Strategic Issues: Convergence and Divergence

Regarding the overall strategic challenges posed by China, US and European leaders agree on challenges that China poses to the international rules-based order, to the international economic order, and to their respective national interests. There is particular convergence regarding Chinese market distorting practices, the challenges to market access and the necessity for a so-called “level playing field”. At the same time, European leaders go out of their way to underscore that while transatlantic unity is key to move forward with a more ambitious China-policy, US and European interests are not identical and that European countries need their own distinctive approach.

Economic Security

The EU is now working on an ambitious economic security agenda that is supposed to enhance its immediate readiness to sudden changes in the geopolitical environment, create greater resilience, identify gaps in legislation and give it the knowledge and tools to deal with a world in which rule-following cannot be expected as the default in the interaction with other states. Or in other words, a world in which non-compliance with agreed upon rules is not only possible, but increasingly likely. Risks analysis is not only supposed to take place with regard to supply chain security or critical dependencies and dual-use technologies and products, but also with regard to the potential of state actors to use economic coercion. The EU framework for economic security is supposed to be presented at the Council meeting on June 21, 2023 with concrete regulatory measures to follow by the end of the year. The question of outbound investment screening is seriously debated, the most likely outcome will not necessarily be an EU-wide new instrument or mechanism, but rather individual legislative action in member states from broadening the definitions of dual-use technologies or enhancing export controls to

other forms of listings of exports. This would then not be unlike the measures taken on the inbound investment screening side, where national legislation in almost all EU member states is now finally in place after the EU framework was finalized in 2019 and came into full effect in October 2020.⁹

The EU has a range of options for concrete action available – its own autonomous toolbox of sharpening existing instruments and creating new ones, new mechanisms and formats with key partners such as the EU-US Trade and Technology Council, which has offered a useful framework for interactions around key China-related questions despite its nominally broader overall agenda. Additionally, the EU and member states can use their international economic power to work in plurilateral or multilateral settings with all those who are affected by the changing geopolitical sentiment. The current process will first and foremost provide the EU with improved situational awareness and economic intelligence to address regulatory blind spots and enhance its defensive capacity. On the more proactive side, the diversification strategy is at the heart of a China plus one (or more) strategy and efforts in re- and nearshoring.

There is enormous transatlantic convergence on the respective defensive side of the economic security agenda, while there is greater hesitance among the EU and its member states than on the US side to devise more offensive or pro-active measures including the use of sanctions and entity listings. As Ursula von der Leyen put it in her March speech, the EU is still seeking what she defines as “healthy” engagement – which describes a more pragmatic and sober response and clearer understanding of the limitations of this engagement against the background of what she describes as a “very deliberate hardening of China’s overall strategic posture”.¹⁰ The areas in which there is at least rhetorically a divergence between the US and various European governments is in the realm of halting China’s advances in the technology space. US export controls on advanced semi-conductors are seen by many observers in Europe as an attempt to “keep China down” or slow its developments on high-tech innovation. Only rarely are the initiatives decidedly portrayed as necessary from a national security perspective as it is still somewhat alien to many European leaders to describe China as a direct security threat to Europe. But even this is slowly changing.

The Ukraine Factor and the Taiwan implications

As a rule of thumb one can currently argue that the closer you geographically get to Ukraine’s border the clearer the impact of the war on the perception of China (with Hungary being the one clear exception as the most China-friendly among this group of countries). Central and Eastern European countries have hardened their approach more significantly – again. Contrary to the strategic shift over the last few years, the re-think that is underway now, however, is about much more than disappointed business interests – something a more pro-active Chinese engagement and select showing of goodwill could still potentially have eased in many of the respective countries. China’s failure to condemn the blatant violation of Ukraine’s territorial integrity and sovereignty and the continued support for Moscow hits a particular nerve among Central and Eastern Europeans and is changing the relationship more substantially and sustainably. The precedent that Beijing is setting with its call for a “reasonable” outcome, which is not premised upon Russia’s full withdrawal from Ukraine’s territory, including Crimea, rings hollow in Poland or the Czech Republic and is not seen as a genuine proposition, the cold

⁹ Regulation EU 2019/452 of the European Parliament and the Council of 19 March 2019 establishing a framework for the screening of foreign direct investments into the Union, <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32019R0452>.

¹⁰ See speech by von der Leyen on 30 March 2023 as cited above.

reception that China's special envoy for Eurasia Li Hui received in Warsaw being a particular case in point.¹¹

While most European leaders would be supportive of a constructive role for China in bringing the parties to the negotiation table and ending the war in Ukraine, they have now also shed illusions that Beijing will go out of its way to accommodate European interests and confront Putin. A notion which in the early months after the invasion was still very present. There is alignment with the current approach of the US government to in theory welcome Chinese initiatives and diplomatic engagement with Ukraine, while being acutely aware of its limitations. What is a lot less clear is where European red lines for Beijing's support for Moscow exactly are and how proactive this should be addressed. Given that the main threat of Chinese support for Russia's war effort is directly threatening European security interests, the reactivity with which EU leaders are approaching the topic is hard to understand.

Particularly given that there could actually be public backing for a clearer stance: The latest poll that my colleagues at the European Council on Foreign Relations (ECFR) have conducted in 11 EU member states, comes to the conclusion that a plurality of 41% of respondents (on average across member states) are in favor of sanctioning China, even if this meant "serious economic harm to Western economies" if China were to deliver ammunition or weapons to Russia. In Sweden 56% of respondents were in favor, 51 % in the Netherlands, whereas only 37% of the respondents in Germany would be inclined to do so with 38% arguing that it would be more important to protect the Western economies than to sanction China. All countries polled show a staggering number of 20 to almost 40% undecided respondents to this question, which shows that there is a lot of unease among the European public and the need for clear communication of political objectives and risk calculations of European leaders becomes ever more important. Risk is currently priced against the imaginary costlessness of upholding the status quo. Weighing the costs of inaction against the cost of more decisive European action to defend European interests vis-à-vis China is a key task for policy makers in Europe and beyond.

In recent months, when in discussion with European policymakers, they were mostly looking at the risk of Chinese arms deliveries to Russia through the angle of potential US sanctions on China and American requests for Europeans to join in. It is still unfamiliar terrain for EU leaders to consider for Europe to independently build a credible deterrent against China further enhancing Russia's fighting capabilities. While all recent visits had coordinated the European message on Ukraine, European leaders need to additionally drive home an absolutely clear message to the Chinese government about their *own* security interests. Europeans out of their own interests should not want to see China arming Russia to help win the war in Ukraine. They could also make clear that whatever Washington does or does not do, that Europe is willing to act on this by itself, which would be a welcome demonstration of European capacity to act and strategic unity. But any pro-active sanctions conversation is tricky at the European level. This is also true regarding any discussion of a potential Taiwan contingency.

The Russian invasion of Ukraine has had a serious impact on the level of attention with regard to a potential escalation in the Taiwan Strait. Media reporting regarding the situation in Taiwan – particularly in Germany has increased significantly and the number of conversations in the strategic policy and business community about possible scenarios and assessments of fallout has increased markedly. Taiwan did not used to be feature as a topic of key strategic interest for EU member states. The Russian invasion and the high-speed forced decoupling particularly

¹¹ For a readout of the meeting provided by the Polish Foreign Ministry see: <https://www.gov.pl/web/diplomacy/deputy-minister-wojciech-gerwel-met-the-special-envoy-of-the-chinese-government-for-eurasian-affairs>.

in the energy realm followed by the necessity to create alternative structures virtually overnight has led to a re-think in the current risk assessment vis-à-vis Taiwan.

It continues to be difficult to publicly advance collective positions that go beyond the minimal consensus, but this should not lead to the wrong conclusions. While the careful rhetoric of the EU is unlikely to change any time soon, the assumption that this would translate into inaction in case of a military escalation in the Taiwan Strait is following a logic that no longer holds.

Even though individual EU member states are hindering a more outspoken EU policy on Taiwan for now, Europeans have demonstrated a remarkable amount of unity on Ukraine and created an unexpected plethora of actions and sanctions to respond to Russia's invasion. Unity on the approach to Russia was absent before the invasion at the EU level (North Stream 2 being the ultimate embodiment of that). When European interests are deeply affected, the level of collective action of European governments that can be mobilized tends to be underestimated – and sometimes surprises the Europeans themselves most. In general, the messages conveyed in private in Beijing over the course of all visits were much more united and clearer than the public commentary may suggest.

This does not mean that all European leaders would be willing to engage in joint contingency planning with the United States for possible responses to a Taiwan contingency. Public scenario-planning and the creation of a concrete list of sanctions that would be waged upon Beijing is not what European member states mostly see as the most sensible option right now. At this stage, it is more important for EU members to gain an understanding of the economic and strategic implications of any of the more and less likely changes in the Status Quo in the Taiwan Strait.

This is particularly true as the European public does not seem to be ready to fully support a change in the stance. The ECFR polling shows that a majority of European respondents (62% on average) polled in all of the respective countries would be in favor of a neutral stance rather than supporting the United States, which only 23% would on average be advocating for.¹² It is thus on European and US policymakers to jointly convey the impossibility of neutrality in such a scenario and devise a clear strategy for deterrence and de-escalation to avoid a military confrontation that takes public perceptions into account by clearly conveying that neutral by-standing will not be an option for Europe.

Europeans are willing to show greater engagement in the region and the polling also clearly shows that the European public is not cynical about a values-based foreign policy. The largest group respondents when asked what kind of power the EU should be would prefer Europe to be “a beacon of democracy and human rights”. The fact that German Defence Minister Boris Pistorius has been speaking at the Shangri-La Dialogue in June 2023 and is continuing his journey from Singapore to India and Indonesia, is demonstrating that the emphasis of the diversification of the relationships in the Indo-Pacific and the upgrading of security partnerships on the ground is a good indicator of the willingness of even one of the traditionally least security policy focused member states seeking to complement Europe's economic footprint in the Indo-Pacific region also with a limited defense engagement.

Outlook

¹² Please note: The data set of the recent polling is still embargoed until 7 June 2023, the link to the data will be added in the final version of this written testimony.

Despite the growing degree of convergence around a whole series of China-related questions, true transatlantic alignment will continue to be complicated. The economic fallout of Russia's invasion of Ukraine is still high, the risks of US-China rivalry real and the challenges posed by moving forward the green and digital transition are just beginning to dawn on Europeans fully. At the same time, geopolitical uncertainty ahead of the US election in 2024 grows and with it a desire to hedge and wait – the opposite of decisive leadership and proactive transatlantic agenda-setting that seems necessary to tackle the challenges posed. Changes in governments in EU member states and external shocks could derail the process of alignment around the principles and parameters set out in Ursula von der Leyen's speech. So far the processes to get to a necessary level of readiness have already taken years to put into place, leading to a situation where Europe continues to be caught on the backfoot, in a reactive mode, regulating yesterday's problems – foreign direct investment screening being a good example. Mechanisms are finally in place in most EU member states, but at the same time Chinese investments into Europe have become much more limited. To overcome the remaining dangers of resorting to inaction in face of the challenges posed by China, it is not unity that is going to be the most difficult to achieve. The foundation for a joint approach and enhanced readiness is there and with the von der Leyen speech has a new, solid intellectual framework. The real challenge in the immediate future will rather be the ability to generate enough economic intelligence, situational awareness, and foresight capability to make the right policy choices that serve European interests, enhance resilience, and ensure competitiveness and to instill the necessary degree of urgency and political will into the European policy process.

Recommendations

A lot of the homework will have to be done on the side of European member states and the EU level, understanding that creating a geopolitical environment conducive to European interests will require a much more proactive approach. There are, however, a few areas in which US policies can be conducive to this process. This includes:

- *Continuing US support for Ukraine* – with a clear commitment beyond 2024, which is an area in which Congress can make a decisive difference. Transatlantic alignment in Asia will also be contingent upon trust levels created in Europe and delivering on the core of the transatlantic security alliance is instrumental for this.
- *Continuing to broaden the coalition with like-minded countries* as the latest G7 initiatives have done, which provides a framework for the “de-risk and diversify” strategy and eliminates some of the tensions that a mainly bilateral transatlantic approach can bring with itself.
- *Advocating for long-term stability in the Taiwan Strait* and seeing a delaying of Chinese actions as a virtue in its own right. Kicking the proverbial can down the road regarding Taiwan rather than proactively contributing to the setting of concrete timelines while hardening deterrence and including Europeans in the conversation on how to strengthen Taiwan's defenses could buy time for both Europe and the US as well as partners and allies in the Indo-Pacific to improve their positions and reduce dependencies on China.
- *Creating economies of scale* – jointly and separately – by making the benefits of industrial policies facilitating the green transition that are rolled out in the US and in Europe available to each other, tackling the challenge of competing with the high scaling potential of the Chinese market.

- *Maintaining the pressure on European governments* to actively secure critical infrastructure in the digital space.
- *Enhance the sharing of economic intelligence* to improve situational awareness of risks in the Chinese market in light of the further tightening of the information space and transparency in China due to the latest anti-espionage legislation, which could include the creation of allied information sharing platforms, business dialogue formats within the scope of the TTC, or enhanced legislative exchanges between the US Congress and EU member state parliaments.

**OPENING STATEMENT OF VEERLE NOUWENS, SHANGRI-LA DIALOGUE
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COMMISSIONER FRIEDBERG: Thank you very much. Ms. Nouwens?

MS. NOUWENS: Co-Chairs Commissioner James Mann, Commissioner Aaron Friedberg, members of the Commission and staff, thank you for inviting me to testify on Europe-China strategic relations and Indo-Pacific policy. Europe-China relations have undergone a significant shift. Europe is generally more skeptical of China's strategic ambitions over the compatibility of its system and interest vis-a-vis international rules-based order.

And European governments have broadly speaking grown concerned about reported Chinese influence, interference, and coercion within their own borders as well as those of partners and allies. This has brought Europe in greater alignment with the United States on China policy than in previous years, although differences still remain concerning intra-European views on how tough an approach to China should be. The UK's position, for example, is more closely aligned to that of the United States, though not identical.

Eastern European states have experienced at the hands of Russia aggression in the past, and now at the hands of China, coercion and assertiveness in recent years. Other countries remain more interested in trade and access to China's enormous market and thus remain wary of potentially angering Beijing. The EU and some member states also seem to be moving away from a focus on strategic autonomy to one which is now focused around strategic sovereignty.

So therefore, not necessarily just about maintaining independence from the United States but also includes a greater shift towards de-risking as EU Commission President Ursula von der Leyen recently outlined in March this year through greater resilience and diversification of supply chains and relationships in order to lessen Europe's vulnerability to and dependence on China in strategic areas as well as greater use of trade instruments from the existing inward investment screening framework to tightening export controls and at least a stated interest in future—to monitor outbound investment to protect economic security. President von der Leyen and indeed EU HR/VP Josep Borrell's comments that the EU now lends greater weight to the strategic rivalry aspect of the characterization of China and that stability across the Taiwan Strait matters significantly to the EU are certainly points of departure from the EU's past positions.

However, as can be seen from some comments of political leaders, officials, and indeed also political elite, strategic communications around Europe's approach to China is not always unified and in line with the strong messaging from EU leadership. And indeed, in some corners of Europe, there remains a lack of trust in the United States due to past instability in the transatlantic relationship, particularly under Trump as well as differences in some policy areas. Recent U.S. initiatives like the Inflation Reduction Act or the October 7 Export Controls confirm to some that the United States also is still pursuing at heart an America First policy with insufficient regard for European prosperity and perspectives.

There's also, of course, still the idea that Europe can and should form a third pole in a multi-polar world. This extends to the Indo-Pacific. Strategic geoeconomic interest as well as concerns over China played an important factor in the adoption of Indo-Pacific strategies, guidelines, and documents in recent years by Europe.

The closeness of the Russia-China relationship and Russia's war of aggression in Ukraine have made European countries more, not less aware, of the potential disruption that would result from a conflict in the Indo-Pacific and the fragility and stability in the region, particularly around

flashpoints like Taiwan. European countries generally view Europe's strengths as lying in softer security and economic policy in the Indo-Pacific. This includes health and human rights, digital and cyber, as well as climate change and connectivity.

The UK and France by virtue of their longstanding engagement in the region reinvigorated strategies for the Indo-Pacific have more frequently deployed militarily to the region and are also more persistently and in the case of France permanently present. The UK has in particular made strong strides. It has become a dialogue partner of ASEAN and is seeking to exceed to the CPTPP.

While it recently entered into defense technology agreements with Australia and the U.S. through AUKUS and Italy and Japan through GCAP indicating a determination for deeper and integrated engagement in the region. While I cannot go into every detail of commonality and divergence across Europe in their interests, partners, and platforms in the Indo-Pacific, it is important to note that amongst those in Europe that do have strategies, there is a different emphasis on which subregions, potential partner states, and regional architecture they should be engaging with and in. Despite these ambitions, limited economic and military resources in Europe already under strain from the aftermath of the global pandemic and now the war in Ukraine will necessitate thoughtful and careful sustainable engagement in the region, including with the United States.

Indeed, while these European countries and the EU see the importance of the Indo-Pacific and seek greater engagement, the Indo-Pacific represents a secondary priority to their own immediate region. For the United States, the Indo-Pacific is, of course, its priority theater, and this is understandable. Thankfully, the inter-linkages between the two regions are well understood by both sides of the Atlantic.

In the UK, the EU, as well as European countries already maintain close contact with U.S. on the Indo-Pacific including through high-level dialogues. In that light, there is scope for greater U.S.-Europe burden share and cooperation in the region as well as between the Euro-Atlantic and Indo-Pacific regions. Transatlantic coordination can, after all, take many forms, from ad hoc to institutionalized and from information sharing to deconfliction and integrated collaboration

First, greater public awareness is required in how Europe -- in Europe over China and the Indo-Pacific. While the public debate around China has increased significantly over the years, there remains an uneven understanding and capacity in government as well on China. Greater coordination and information sharing in this respect would be helpful between the Europe and the U.S.

On the Indo-Pacific, there is far less public discussion and awareness and certainly less so around what Europe's potential role might be vis-a-vis conflict such as Taiwan in the region. Greater debate and thinking as well as awareness raising amongst the public is required. Second, this at times has led to reductionist thinking in the EU, around the world that Europe and the EU can play in the Indo-Pacific. Third, there is also greater need for stock taking of European, U.S., and partner assets and infrastructure in the Indo-Pacific region as well as careful analysis how these should be utilized in times of peace and conflict.

The heavy concentration in the Indian Ocean region, European countries are well placed to have more concrete and detailed Indian Ocean strategies. Moreover, in a time of conflict, for example, over Taiwan, the debate over Europe's role must evolve from one that dismisses their participation due to geographic distance to one that creatively explores how European assets could, for example, aid with supply chain logistics or keep vital sea lines of communication and

maritime chokepoints open. I have further recommendations in my stated testimony, and I'd be happy to discuss those with you in person in the discussion next. Thank you.

**PREPARED STATEMENT OF VEERLE NOUWENS, SHANGRI-LA DIALOGUE
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**Testimony before the U.S.-China Economic and
Security Review Commission**

**Europe, the United States, and Relations with China:
Convergence or Divergence?, Panel III:**

Convergence and Divergence: Strategic Issues

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January 2, 2023

Co-chairs Commissioner James Mann and Commissioner Aaron Friedberg, members of the Commission and staff, thank you very much for your invitation to testify on Europe-China strategic relations and transatlantic cooperation.

Summary

Europe-China relations have undergone a significant shift. Europe is generally more skeptical of Chinese global and regional strategic ambitions, over the compatibility of its system and interests vis-à-vis the liberal international rules based order in which shared principles are key, and European governments have broadly speaking grown concerned of reported Chinese influence, interference and coercion within their own borders as well as those of partners and allies. This has brought Europe in greater alignment with the United States on China policy. However, two major difference remain: firstly, that the European Union (EU) views itself as a third pole in a multipolar world and secondly, ambitions remain for strategic sovereignty from the United States (US) in some European capitals. The implications of this are that Europe and the US remain unaligned on certain matters, for example on certain principles such as trade, climate change, or the governance of and behavior in the global commons. This influences the debate in Europe over Europe's relationship with both China and the US. However, the EU and Europe's overarching view of incompatibility increasingly concern China more than the United States, as Europe adopts a strategy of strategic 'de-risking' from China.

Europe is, of course, also not a single homogenous actor. Within the region, the United Kingdom (UK) through its special relationship with the US has moved closer, though not fully, towards Washington DC's perspective of China. Skepticism and critique of China has also grown in Eastern European states who have been at the receiving end of Russia's aggression in the past and Chinese assertiveness and coercion in recent years. Russia's war of aggression against Ukraine has awakened much of Europe of the interlinkages between European and Indo-Pacific security and the Russia-China relationship in particular. With strategic geo-economic interest in the Indo-Pacific having played an important factor in the adoption of Indo-Pacific strategies, guidelines and documents in recent years, European countries have become more, not less, aware of the potential global disruption that would result from a conflict in the Indo-Pacific and the fragility of stability in the region – particularly around flashpoints such as Taiwan. But limited economic and military resources in Europe, already under strain from the aftermath of the COVID-19 pandemic and now the war in Ukraine, will necessitate careful and creative Europe-US burden sharing and cooperation in the Indo-Pacific.

Evolving Europe-China Relations

The general trend across Europe over China has been one of growing skepticism that China is a political, economic and military growing power with compatible values and benign intentions. In the European Union and its member states, China has since 2019 been described as a triptych: a partner,

an economic competitor, and a strategic rival.¹ As was evident with the debate around whether Huawei should be included in national 5G systems, Europe has not always seen eye-to-eye with the United States. Indeed, earlier examples of disagreements included cooperation with China on the Galileo global navigation satellite system, which the US cautioned against.² Europe has long prioritized engagement with China as a central pillar of its approach, and European businesses have over time come to rely on the Chinese market as well as manpower for their manufacturing supply chains.³ In 2019, the value of goods exported from Germany to China was equal to the total of all other EU members exports to China.⁴

However, the mood in Europe shifted following Beijing's reaction to COVID and the subsequent employment of 'wolf warrior diplomacy' in Europe by Chinese diplomats and officials, economic coercion against European member state Lithuania, as well as the announcement of the 'limitless partnership' between Russia and China shortly before Russia's unlawful invasion of Ukraine and repeated reluctance to condemn Russia. The impact of COVID and the war in Ukraine on critical supply chains, as well as the potential for further disruption should conflict occur in the Indo-Pacific, have alerted European capitals to the importance of both national resilience and potential diversification away from China including toward other partners in the Indo-Pacific region.

While Europe, including the EU and its member states, have been critical of US language around 'de-coupling' from China, Europe has adopted a new term, 'de-risking'. EU Commission President Ursula von der Leyen in a landmark speech in March 2023 stated that Europe's approach to China was changing.⁵ As a lesson learned from Europe's significant reliance on Russia for energy and its ultimate weaponization by Moscow as a form of coercion, Europe now seeks to reduce its strategic dependencies on China through diversifying supply chains away from it in order to afford Europe greater strategic balance against China. Brussels will also increase trade instruments, from the existing inward investment screening framework, to tightening export controls, and now monitoring outbound investment to protect economic security. In 2021, the EU – in coordination with the UK, US and Canada - also took the unprecedented step of sanctioning Chinese officials and one entity for their connection to the mass detention and persecution of Uyghurs in Xinjiang.⁶ China responded

¹ European Commission and HR/VP Contribution to the European Council, 'EU-China – A Strategic Outlook', 12 March 2019. <https://commission.europa.eu/system/files/2019-03/communication-eu-china-a-strategic-outlook.pdf>

² Veerle Nouwens, 'A Transatlantic Approach to China in the Global Commons: Convergence and Divergence in Seas and Outer Space', Whitehall Report 3-22 (March 2022), <https://static.rusi.org/322-WHR-Global%20Commons.pdf>

³ Pepijn Bergsen, Anthony Froggatt, Veerle Nouwens, and Raffaello Pantucci, 'China and the Transatlantic Relationship', Chatham House, 16 June 2022, <https://www.chathamhouse.org/2022/06/china-and-transatlantic-relationship/about-authors>

⁴ Pepijn Bergsen, 'The EU's Unsustainable China Strategy', Chatham House Research Paper, July 2021, <https://static.rusi.org/322-WHR-Global%20Commons.pdf>

⁵ European Commission, 'Speech by President von der Leyen on EU-China Relations to the Mercator Institute for China Studies and the European Policy Centre', 30 March 2023, https://ec.europa.eu/commission/presscorner/detail/en/speech_23_2063

⁶ Council of the European Union, 'EU Imposes further sanctions over serious violations of human rights around the world', 22 March 2021, <https://www.consilium.europa.eu/en/press/press-releases/2021/03/22/eu-imposes-further-sanctions-over-serious-violations-of-human-rights-around-the-world/>

with counter-sanctions.⁷ While the multifaceted characterization of China remains in place, EU High Representative and Vice President (HR/VP) for Foreign Policy Josep Borrell recently made clear that the ‘rivalry aspect’ within the EU’s characterization of China has become more important over the years.⁸

This trend can likewise be seen in the United Kingdom, whose China relationship can be described as evolving from a ‘Golden Era’ in 2015 to the end of an Era in 2022. ‘The Golden Era is over’, Prime Minister Sunak announced in November 2022.⁹ However, the wheels for this were set in motion years earlier as the UK sought to address challenges presented by China including questioning the security implications of including Huawei in its national 5G infrastructure, to the atrocities in Xinjiang, repression in Hong Kong and China’s description of the Sino-British Joint Declaration on Hong Kong as a historical document that has no meaning.¹⁰ More recently, the UK has been concerned over China’s handling of the COVID-19 pandemic, its relationship with Russia and response to the war in Ukraine, as well as wider concerns around influence and interference within its borders.

In the past two years, successive public statements have pointed towards the significant shift in UK concern over China and the subsequent influence this is having on policy approaches. In the UK’s Integrated Review Refresh, China has been deemed the UK’s ‘epoch-defining challenge’.¹¹ UK intelligence officials have likewise alerted concerns around Chinese undue influence and interference in the country. In June 2022, in a rare joint address, MI5 Director General Ken McCallum and FBI Director Chris Wray spoke to business and academic communities in London of the ‘massive shared challenge’ posed by China and the need for a whole-of system response to protect economies, institutions and democratic values of the US and UK.¹² In his annual foreign policy speech, UK Foreign Secretary James Cleverly deviated from the occasion’s traditional tour d’horizon of UK foreign policy and almost exclusively focused on the UK-China relationship. Despite criticisms of having no official and publicly published China strategy, the position of the Sunak Government is

⁷ European Parliament, ‘Chinese Counter-Sanctions on EU Targets’, May 2021, [https://www.europarl.europa.eu/RegData/etudes/ATAG/2021/690617/EPRS_ATA\(2021\)690617_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/ATAG/2021/690617/EPRS_ATA(2021)690617_EN.pdf)

⁸ European External Action Service, ‘EP Plenary: Speech by High Representative/Vice-President Josep Borrell on EU-China Relations’, 18 April 2023, [https://www.europarl.europa.eu/RegData/etudes/ATAG/2021/690617/EPRS_ATA\(2021\)690617_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/ATAG/2021/690617/EPRS_ATA(2021)690617_EN.pdf)

⁹ ‘Rishi Sunak: Golden Era of UK-China Relations is Over’, BBC, 29 November 2022, <https://www.bbc.com/news/uk-politics-63787877>

¹⁰ ‘China Says Sino-British Joint Declaration on Hong Kong No Longer Has Meaning’, Reuters, 30 June 2017, <https://www.reuters.com/article/us-hongkong-anniversary-china/china-says-sino-british-joint-declaration-on-hong-kong-no-longer-has-meaning-idUSKBN19L1J1>

¹¹ HM Government, ‘Integrated Review Research 2023L Responding to a More Contexted and Volatile World’, March 2023, https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1145586/11857435_NS_IR_Refresh_2023_Supply_AllPages_Revision_7_WEB_PDF.pdf

¹² UK Foreign, Commonwealth and Development Office, ‘Our Position on China: Foreign Secretary’s 2023 Mansion House Speech’, 25 April 2023, <https://www.gov.uk/government/speeches/our-position-on-china-speech-by-the-foreign-secretary>

not unlike those of others in Europe.¹³ As Foreign Secretary Cleverly noted in his speech, it is ‘impossible, impractical and unwise to sum up China in one word – threat, partner, or adversary’ and ‘no punchy catchphrase or plausible adjective can do justice so such a country or to any sensible approach towards it’. Instead, the UK will pursue a three-pronged approach: i) strengthening national security protections vis-à-vis challenges posed by China at home in the UK; ii) deepening cooperation and strengthening alignment with friends and partners in the Indo-Pacific and beyond; and iii) engaging China directly, bilaterally and multilaterally.

Although promising a complete audit of UK-China relations should they come to power in the forthcoming general election set to take place by January 2025, Labour Shadow Foreign Secretary, David Lammy MP’s characterization of his party’s approach to China seems little different, namely that it would ‘challenge, compete and cooperate’ with Beijing.¹⁴ Overwhelmingly, the multi-faceted relationship with China which seeks to strive a balance between competition and engagement, prosperity and security, is one that both Europe and the US face and understand. Indeed, as Secretary Blinken noted in March 2021, the US’ relationship with China would be “Competitive when it should be, collaborative when it can be and adversarial when it must be.” It is also one which is increasingly more closely aligning to the view of the US in viewing the competitive element of the relationship to be increasingly important.

However, this does not inherently lead to a perfectly unified China approach between Europe and the US. Europe has been wary of the US’ terminology around ‘de-coupling’ and any characterisation of a dichotomous and fractured international system driven by zero-sum US-China competition. Nevertheless, the growing convergence between Europe and the US is that China is increasingly heading into the direction of authoritarianism, which manifests both domestically within China through repression, surveillance and nationalism, and overseas through greater assertiveness, as well as Chinese overt and covert interference. While Europe, including the UK, refused to adopt the language of decoupling, there appears now to be acceptance amongst European countries, the US and other partners in the G7 of focusing on ‘de-risking’ and cooperative arrangements between partners and allies to build shared resilience.¹⁵

Similarly, Europe is moving away from its previous use of ‘strategic autonomy’ to now focus more on ‘strategic sovereignty’, in an effort to balance its relationship between the US and China¹⁶. However, there remain instances where European inclinations toward ‘strategic autonomy’ and

¹³ UK House of Lords, ‘UK-China Relations: International Relations and Defence Committee report’, 10 October 2022, <https://lordslibrary.parliament.uk/uk-china-relations-international-relations-and-defence-committee-report/>

¹⁴ Labour Party, ‘David Lammy Speech to Chatham House’, 24 January 2023, <https://labour.org.uk/press/david-lammy-speech-to-chatham-house/>

¹⁵ ‘UK’s Sunak Says China Poses World’s Biggest Security Challenge’, Reuters, 21 May 2023, <https://www.reuters.com/world/uks-sunak-says-china-poses-worlds-biggest-security-challenge-2023-05-21/>; ‘G7 Aligns on Shared ‘De-Risk, Not Decouple’ Approach to China’, Reuters, 20 May 2023, <https://www.reuters.com/world/white-house-says-g7-will-align-shared-de-risk-not-decouple-approach-china-2023-05-20/>

¹⁶ Nicolai von Ondarza and Marco Overhaus, ‘Rethinking Strategic Sovereignty’, SWP Comment, 28 April 2022, <https://www.swp-berlin.org/10.18449/2022C31/>

internal divisions on how to manage China resurface. Most recently this can be seen in the statement by President Emmanuel Macron of France that the Taiwan crisis “is not ours” and that Europeans should not be “America’s followers”, doubling down on his statement shortly thereafter in an official visit to the Netherlands where President Macron stated that ‘being ally does not mean being a vassal’.¹⁷ So, too, have there been criticisms over inconsistent messaging by European officials, including President Macron and German Chancellor Olaf Scholtz, for bringing large business delegations to China in their state visits late last year and this year despite Europe’s attempt to send a signal that EU-China relations could not be ‘business as usual’ as long as China supported Russia over Ukraine.¹⁸ Further inconsistent messaging has emerged over Taiwan, as newly-appointed European Ambassador to Beijing noted that the European Union does not support an independent Taiwan, but rather a ‘peaceful reunification’ with China.¹⁹ The official position remains that the EU does not support unilateral action across the Taiwan Strait and supports a peaceful resolution.

Divergences also exist between the US and Europe. Despite a better transatlantic relationship under the Biden Administration, decisions like the Inflation Reduction Act (IRA) have strained Europe-US relations and underscored a suspicion in some quarters that the US will continue to adopt a policy that at its heart is one of ‘America First’.²⁰ Europe viewed the IRA’s subsidies for re-shoring businesses as incompatible with global trade rules and undermining European business in the energy transition sector. However, Brussels has since followed suit through its own ‘Green Deal Industrial Plan’, and further announcements have been made indicating some negotiations of European inclusion in the IRA.²¹ Another area of disagreement between European partners has been the US’ October 7 export controls, the breadth of which may have taken partners like the Netherlands by surprise.²² Here, too, however, efforts by both the Netherlands and the US has apparently resolved the initial disagreement.

¹⁷ Jamil Anderlini and Clea Caulcutt, ‘Europe Must Resist Pressure to Become ‘America’s Followers’, Says Marcon’, Politico, 9 April 2023, <https://www.politico.eu/article/emmanuel-macron-china-america-pressure-interview/>; Natashi Li, ‘France Seeks to Reassure Taiwan over Macron’s Controversial Remarks’, France24, 16 April 2023, <https://www.france24.com/en/europe/20230416-france-seeks-to-reassure-taiwan-over-macron-s-controversial-remarks>

¹⁸ Thorssten Benner, ‘Europe is Disasterously Split on China’, GPPI Commentary, 12 April 2023, <https://gppl.net/2023/04/12/europe-is-disasterously-split-on-china>

¹⁹ John Feng, ‘EU Envoy Endorses China’s ‘Peaceful Reunification’ With Taiwan’, Newsweek, 19 July 2022, <https://www.newsweek.com/eu-china-taiwan-reunification-ambassador-jorge-toledo-1725869>.

²⁰ Leigh Thomas, ‘Explainer: Why the US Inflation Reduction Act has Europe Up in Arms’, Reuters, 1 December 2022, <https://www.reuters.com/markets/why-us-inflation-reduction-act-has-europe-up-arms-2022-11-30/>

²¹ Anna Gumbau, ‘The EU Struggles to Respond to US Green Subsidy Race’, China Dialogue, 21 March 2023, <https://chinadialogue.net/en/energy/the-eu-struggles-to-respond-to-us-green-subsidy-race/>; The White House, ‘US-EU Joint Statement of the Trade and Technology Council’, 31 May 2023, <https://www.whitehouse.gov/briefing-room/statements-releases/2023/05/31/u-s-eu-joint-statement-of-the-trade-and-technology-council-2/>

²² Gregory C. Allen and Emily Benson, ‘Clues to the US-Dutch-Japanese Semiconductor Export Controls Deal are Hiding in Plain Sight’, CSIS, 1 March 2023, <https://english.almayadeen.net/news/politics/us-pushes-dutch-chip-firm-to-halt-china-exports-netherlands>; ‘Dutch Trade Minister: Won’t Summarily Agree to US Rules on China Exports’, Reuters, 17 January 2023, <https://www.reuters.com/technology/dutch-trade-minister-wont-summarily-agree-us-rules-china-exports-2023-01-16/>

More broadly, however disagreements with the US still exist, for example in the global commons, which the United States, unlike European countries and the EU, does not recognize.²³ These differences are particularly pronounced where there are debates over economic competition and potential for exploitation in new domains such as outer space. This has knock-on effects on how the US and Europe have engaged in international fora, including for example with the US establishing its own Artemis Accords initiative for conduct in outer space, which only 4 European nations have joined, while the EU attempted and failed to develop and then negotiate its own proposal within the UN on conduct in outer space. Nevertheless, these disagreements do not fundamentally tip the balance from a closer partnership in favour of China over the United States. It does, however, indicate a need for the United States to at times be more receptive to European principles if a closer transatlantic relationship on China is to be achieved. In that respect, there is also a sense of wariness over the upcoming US elections and whether a ‘Trump 2.0’ lies ahead which could once more complicate transatlantic relations and lead to renewed friction.²⁴

EU and Europe in the Indo-Pacific: Interests and Roles

Europe has recognized that the global economic and geostrategic centre of gravity has shifted to the Indo-Pacific, bringing with it economic opportunities as well as concerns.²⁵ One significant driving factor is around Chinese economic and military assertiveness in the Indo-Pacific and what Europeans and the US fear may be China’s ambition to establish a Chinese sphere of influence and their own hardening attitudes towards China due to the aforementioned shifts in China’s own behavior. However, there are also additional issues that stand to increase instability in the Indo-Pacific, including climate change, transnational organized crime, and issues such as global health likewise impacting regional stability. This has resulted in significant overlaps between the various Indo-Pacific strategies, guidelines and documents in Europe, including those of the EU, France, Germany, the Netherlands, the United Kingdom, and more recently the Czech Republic, while Sweden has stated it will work to implement the EU’s Indo-Pacific Strategy and has recently organized an EU Indo-Pacific Forum in Stockholm.²⁶ NATO also adopted language on the Indo-Pacific in its 2022 Strategic Concept.²⁷

²³ Veerle Nouwens, ‘A Transatlantic Approach to China in the Global Commons: Convergence and Divergence in Seas and Outer Space’, Whitehall Report 3-22 (March 2022), <https://static.rusi.org/322-WHR-Global%20Commons.pdf>

²⁴ Marianne Schneider-Petsinger, Veerle Nouwens, Alice Billon-Galland, Andrew Gainey, and Dr. Gareth Price, ‘Transatlantic Cooperation in the Indo-Pacific’, Chatham House, 17 November 2022, <https://www.chathamhouse.org/2022/11/transatlantic-cooperation-indo-pacific>

²⁵ Ibid.

²⁶ Ibid; Ministry of Foreign Affairs of the Czech Republic, ‘The Czech Republic’s Strategy for Cooperation with the Indo-Pacific’, October 2022, https://www.mzv.cz/file/4922486/CZ_Strategy_Indo_Pacific_2022.pdf; Government of Sweden, ‘Swedish Presidency of the Council of the European Union’ (2023), <https://swedish-presidency.consilium.europa.eu/media/40ac5ru3/the-swedish-presidency-programme.pdf>; European External Action Service, ‘EU Indo-Pacific Forum Stockholm 2023’, https://www.eeas.europa.eu/eeas/eu-indo-pacific-forum-stockholm-2023_en.

²⁷ NATO, ‘NATO 2022 Strategic Concept’, 29 June 2022, https://www.nato.int/nato_static_files2014/assets/pdf/2022/6/pdf/290622-strategic-concept.pdf

These strategies conceptualise the Indo-Pacific region as encompassing India and the South Pacific and all that lies in between. However, there are also differences within Europe and between Europe and the United States on the geographic scope of the Indo-Pacific, the prioritization of the Indo-Pacific in national strategies, and the role of Europe in the region. While the US and UK view the geographic scope of the Indo-Pacific as stretching from India to the South Pacific, France includes the Western Indian Ocean in its strategy due to its overseas territories. This difference in emphasis on sub-regions in the Indo-Pacific is not necessarily a weakness of potential future European and US engagement in the region, but indeed can be a strength.

There is also broad agreement across the strategies on who the main partners in the Indo-Pacific region are - Australia, India, Japan, and New Zealand - and on countries that Europe seeks closer partnership with, namely Indonesia, Malaysia, South Korea and Vietnam. These Indo-Pacific partners are selected and prioritized for a variety of reasons ranging from historical ties to strategic interests around prosperity and security. Regional multilateral architectures are also seen as key in order to achieve effective engagement – in particular, ASEAN.

However, while some countries' strategies have emphasized the Indian Ocean Rim Association, others point towards the Pacific Island Forum or the Quad. Such differences are of strategic value given that neither Europe nor the US can be everywhere doing everything all at once and burden sharing between partners is required in such a vast region. There is also a difference between Europe and the United States in prioritising the Euro-Atlantic and Indo-Pacific theatres. While the United States has labeled the Indo-Pacific its priority theater, Europeans recognize its importance but also feel the pressure of a war on Europe's doorstep and the need to rebalance against decades of reliance on the US for European security.²⁸

Given limited defence resources and the tyranny of distance, only the United Kingdom and France maintain power projection capabilities into the Pacific.²⁹ As such, 'hard power' defence questions in the Indo-Pacific are generally viewed as a policy area in which the US plays the leading role, and in which European militaries can play supporting ones. Indeed, although Germany and the Netherlands have indicated deployments to the Indo-Pacific will take place every few years, most European countries by virtue of their limited capacity hold little interest in engaging militarily in the Indo-Pacific. Opportunities for defence diplomacy and defence industry promotion are perhaps an exception to this.

²⁸ Jim Garamone, 'Defense Official Says Indo-Pacific Is the Priority Theater; China is DOD's Pacing Challenge', US Department of Defense News, 9 March 2022, <https://www.defense.gov/News/News-Stories/Article/Article/2961183/defense-official-says-indo-pacific-is-the-priority-theater-china-is-dods-pacing/>.

²⁹ 'Germany to Send Two Warships to Indo-Pacific in 2024 Amid South China Sea Tensions', Reuters, 2 June 2023, <https://www.reuters.com/world/germany-send-two-warships-indo-pacific-2024-amid-south-china-sea-tensions-2023-06-04/>; 'A Look at the Defence News 13-19 June', Netherlands Ministry of Defence, 22 June 2022, <https://english.defensie.nl/latest/news/2022/06/22/a-look-at-the-defence-news-13---19-june>

Europe sees its strength in the Indo-Pacific as fundamentally lying in trade and investment, regulatory power, and softer security issues such as connectivity, climate change, and development. Europe has economic capabilities.

European countries chiefly engage in the region bilaterally, as well as multilaterally as part of a coordinated effort through the EU. Indeed, some European strategies like that of the Netherlands specifically points towards a division of labour between its own actions and those it would seek from the EU in the Indo-Pacific region. The EU has its own initiatives such as the Global Gateway infrastructure initiative, Coordinated Maritime Presences concept which it will be extending to the Indian Ocean region, is a Dialogue Partner of ASEAN and other organisations, and has long been present in the Western Indian Ocean and the Horn of Africa as part of the EU NAVFOR's Operation ATALANTA.³⁰

The UK has its own longstanding engagements in the region, such as through the Five Powers Defence Arrangements (with Singapore, Malaysia, Australia and New Zealand) and military facilities and bases in East Africa, the Gulf, and Southeast Asia, has two Offshore Patrol vessels stationed in the region, and joined new defence technology partnerships such as AUKUS (with the United States and Australia) and Global Combat Air Programme (with Italy and Japan).³¹ The UK has also acceded to ASEAN as a Dialogue Partner, is seeking to join the CPTPP, and has signed several Memorandums of Understanding with countries such as Indonesia and signed an Indo-Pacific defence agreement with India to deepen their partnership, including in defence.³²

But there are also growing areas of intra-European coordination and cooperation in the Indo-Pacific. Following the souring of political ties between France and the UK as a result of the AUKUS announcement, London and Paris committed to working together as permanent members of the UN Security Council, and members of G7, G20 and NATO to manage the shared challenges both countries face through greater intelligence sharing, complex weapons development, as well as coordinating deployments of their aircraft carriers to regions of shared interest to maintain a persistent

³⁰ Veerle Nouwens, 'III. European Naval Cooperation Within the Indo-Pacific' in Ed Arnold (Ed.), 'Ad-Hoc European Military Cooperation Outside Europe', Konrad Adenauer Stiftung, <https://www.kas.de/documents/276969/277018/Ad-Hoc+European+Military+Cooperation+Outside+Europe+-21+December+2021.pdf/1056b1ae-e462-3f3c-a99a-2d3430cee642?version=1.0&t=1640103347658>

³¹ Veerle Nouwens, 'Why Europe's Enhanced Military Presence in the Indo-Pacific is an Asset', Internationale Politik Quarterly, 30 September 2021, <https://ip-quarterly.com/en/why-europes-enhanced-military-presence-indo-pacific-asset>; Veerle Nouwens and Garima Mohan, 'Europe Eyes the Indo-Pacific, but Now it's Time to Act', War on the Rocks, 24 June 2021, <https://warontherocks.com/2021/06/europe-eyes-the-indo-pacific-but-now-its-time-to-act/>; 'The Japan-UK-Italy Co-Development of the Global Combat Air Programme (GCAP)', Embassy of Japan in the UK, 9 December 2022, https://www.uk.emb-japan.go.jp/itpr_en/221209.html.

³² 'Indonesia, Britain Agree to Review MOU on Defence Cooperation', Antara News, 27 November 2021, https://www.uk.emb-japan.go.jp/itpr_en/221209.html; 'UK and India Ink Indo-Pacific Defence Agreement', DW, 22 April 2022, <https://www.dw.com/en/uk-and-india-ink-indo-pacific-defense-agreement/a-61557759>; Veerle Nouwens and Ed Arnold, 'Unnecessary Delay: The Integrated Review Refresh 2023', RUSI Commentary, 14 March 2023, <https://rusi.org/explore-our-research/publications/commentary/unnecessary-delay-integrated-review-refresh-2023>.

European presence, including in the Indo-Pacific.³³ With France's routine deployments to the Indo-Pacific and the UK's recent announcement of deploying a Carrier Strike Group to the Indo-Pacific in 2025, the opportunity exists for the UK and France to act as 'framework nations' for other European countries with more limited resources to join.³⁴ This has been the case in numerous French deployments already and was also the case for the 2021 UK-led Carrier Strike Group deployment to the Indo-Pacific, which included participation from the Netherlands and the United States.³⁵

Europe and Taiwan: A growing space for limited engagement

In April 2023, EU HR/VP Josep Borrell, in an effort to balance against Macron's public statement on Taiwan, noted that Taiwan concerned the EU 'economically, commercially, and technologically'. He also called on European navies to patrol the Taiwan Strait to 'show Europe's commitment to freedom of navigation in this absolutely crucial area'.³⁶ Given the limited European military resources to expend on the Pacific region, this is unlikely. However, European parliamentary visits to Taiwan and the visit in March 2023 by German Education Minister Bettina Stark-Watzinger to Taipei as the first cabinet official to visit Taiwan in decades point toward a greater strategic interest in Taiwan amongst European countries.³⁷

The EU, European member states and the UK still maintain a 'One China Policy'. While the EU, EU member states and the UK do not diplomatically recognize Taiwan, they in practice maintain engagement with Taiwan on a range of issues such as trade and investment, people-to-people ties and other areas, but also underscore that the need for a peaceful settlement across the Taiwan Strait and that no unilateral action should be taken by either side to change the status quo.

However, Taiwan's exclusion from international bodies by China during the Pandemic, while still offering support through PPE provisions to Europe, offered a stark comparison to a China that was perceived as coercive and aggressive during a global health crisis. Von der Leyen publicly thanked Taiwan for its 'gesture of solidarity' on Twitter in response to Taiwan's donation of 5.6 million masks to the EU.³⁸ The impact of the COVID-19 pandemic on supply chains, as well as Russia's leveraging of its energy relationship to coerce Europe further highlighted the world's dependence on Taiwan for

³³ HM Government, 'UK and France Commit to Greater Defence Cooperation at Paris Summit', Press Release, 10 March 2023, <https://www.gov.uk/government/news/uk-and-france-commit-to-greater-defence-cooperation-at-paris-summit>.

³⁴ Xavier Vavasseur, 'UK Aircraft Carrier to Return to the Indo-Pacific in 2025', Naval News, 23 May 2023, <https://www.navalnews.com/naval-news/2023/05/uk-aircraft-carrier-to-return-to-the-indo-pacific-in-2025/>

³⁵ HM Government, 'HMS Queen Elizabeth Returns Home as Historic Global Deployment Comes to an End', Press Release, 9 December 2021, <https://www.gov.uk/government/news/hms-queen-elizabeth-returns-home-as-historic-global-deployment-comes-to-an-end>

³⁶ Stuart Lau, 'Send Warships to Taiwan Strait, Borrell Urges EU Governments', Politico, 23 April 2023, <https://www.politico.eu/article/china-josep-taiwan-borrell-eu-warships-to-patrol-strait/>.

³⁷ 'German Minister Makes Landmark Visit to Taiwan', DW, 21 March 2023, <https://www.dw.com/en/german-minister-makes-landmark-visit-to-taiwan/a-65056645>

³⁸ David Hutt, 'Taiwan Sees Doors Open in Europe as Virus Response Earns Respect', Asia Nikkei, 13 April 2020, <https://asia.nikkei.com/Politics/International-relations/Taiwan-sees-doors-open-in-Europe-as-virus-response-earns-respect>

advanced semiconductors, a sector in which it dominates internationally, and the economic impact that a disruption in the supply thereof would have on the global economy – US \$6.2 trillion according to Asia Nikkei.³⁹ However, EU HR/VP Joseph Borrell also implied that rejecting action against Taiwan was also a moral choice, which is echoed in some European Parliaments that call for tougher stances against China and solidarity with Taiwan as an open and democratic partner.⁴⁰

There has also been a perception in Europe that Beijing itself is shifting the goalposts on what it considers permissible engagement with Taiwan as part of countries' One China policies.⁴¹ Indeed, this includes Beijing's displeasure at the UK and Taiwan's decades-long trade dialogues with an emphasis on trade, technology and green energy, which are now met with angry responses from Beijing.⁴² The EU's desire to upgrade its trade and investment ties with Taipei have likewise not been received positively by Beijing. Moreover, while a United States House Speaker has visited Taiwan in the past (Newt Gingrich visited in 1997), China reacted furiously to the visit in 2022 by then-US House Speaker Nancy Pelosi. Beijing likely perceives the increased attention on Taiwan by Europe as part of a wider effort to undermine China's rise and its core interests. Indeed, in addition to the increased interest in Taiwan, Beijing has criticized what it deems 'military blocs' and 'bloc confrontation', in reference to AUKUS, the reports of a possible NATO office in Japan, as well as wider criticism against China from groupings like the G7 and NATO.⁴³

While it is clear that NATO and Europe are increasingly wary of Chinese behavior, including around Taiwan, and are seeking deeper partnerships with countries in the region like Japan and Australia, Chinese assertions that the US and Europe are seeking to establish an 'Asian NATO' are incorrect.

Nevertheless, discussion around what a Taiwan contingency might look like and what actions European capitals (and private sector companies) could envision taking as a response to a unilateral change across the Taiwan Strait are underway, albeit at a nascent stage.⁴⁴ These discussions, including between the US-UK and US-EU, are not made public. However, following the war in Ukraine and the strong unified response by the US, Europe and several Indo-Pacific partners like Japan, Australia

³⁹ '\$2.6tn Could Evaporate from Global Economy in Taiwan Emergency', Asia Nikkei, 22 August 2022, <https://asia.nikkei.com/Spotlight/The-age-of-Great-China/2.6tn-could-evaporate-from-global-economy-in-Taiwan-emergency2>

⁴⁰ 'Top EU Diplomat Calls for Navy Patrols in Taiwan Strait', DW, 23 April 2023, <https://www.dw.com/en/top-eu-diplomat-calls-for-navy-patrols-in-taiwan-strait/a-65409557>

⁴¹ Helen Davidson, 'The Pelosi Effect: Foreign Delegations Queue Up to Visit Taiwan in Defiance of China', The Guardian, 27 August 2022, <https://www.theguardian.com/world/2022/aug/27/the-pelosi-effect-foreign-delegations-queue-up-to-visit-taiwan-in-defiance-of-china>

⁴² 'British Minister to Meet Taiwan President, Drawing China's Anger', Reuters, 7 November 2022, <https://www.reuters.com/world/british-minister-visit-taiwan-trade-talks-meet-president-2022-11-07/>. Graham Lanktree, 'UK Risks Chinese Anger of Trade Talks with Taiwan', Politico, 4 July 2022, <https://www.politico.eu/article/uk-discussion-taiwan-trade-cptpp-anger-china>

⁴³ Veerle Nouwens, 'US Allies in the Indo-Pacific Align on China', IISS Online Analysis, 1 June 2023, <https://www.iiss.org/online-analysis/online-analysis/2023/05/us-allies-in-the-indo-pacific-align-on-china/>

⁴⁴ Kathrin Hille and Demetri Sevastopulo, 'US Warns Europe a Conflict over Taiwan could Cause Global Economic Shock', FT, 11 November 2022, <https://www.ft.com/content/c0b815f3-fd3e-4807-8de7-6b5f72ea8ae5>; Demetri Sevastopulo and Kathrin Hille, 'US Holds High-Level Talks with UK Over China Threat to Taiwan', FT, 1 May 2022, <https://www.ft.com/content/b0991186-d511-45c2-b5f0-9bd5b8ccee40>.

and Singapore, questions remain over whether similar policy actions such as sanctions might be envisioned in response to an attack on Taiwan.

The details of this will be key. Russia's direct contravention of international law through its illegal war of aggression against Ukraine has provoked a strong reaction in Europe. It remains uncertain whether in the case of Taiwan, such a strong response will be elicited over Taiwan in all European countries and indeed countries in the Indo-Pacific. Lack of public awareness of the potential for Taiwan contingencies should be a concern for European capitals, as public debate about Taiwan is largely lacking in European countries. Given the call by Europe and the US for global action in response to Ukraine's invasion, countries such as Japan will expect the same reaction from Europe to a crisis in its own neighborhood. Other countries, which have sought to avoid siding with Russia or Ukraine such as Indonesia, however, may choose to likewise attempt to avoid siding between the US and China over Taiwan. Beyond sanctions, Europe also has limited capacity to surge to the aid of the United States militarily in a Taiwan scenario.

Another complication might be in the nature of the scenario itself, for example if conflict has been sparked as the result of miscalculation or an accident, or through greyzone warfare. In less clear cut scenarios, it is not as easily apparent what European reactions might be beyond calling for calm.

However, this is not to say that there is no role for Europe in a Taiwan contingency. There is likely little expectation on the part of the United States that Europe will militarily play a significant role in the Pacific should conflict erupt. Should a military presence be nearby, there may likely be a request from the US to engage European assets in a specific way. For close defence partners like the UK, this will not necessarily be an unanticipatable scenario. However, discussions around the Indo-Pacific and Taiwan contingencies are too often narrow. The knock-on effects of a Taiwan conflict could include instability in third locations and other sub-regions of the Indo-Pacific. Sea lines of communication and maritime chokepoints will need to remain open. Although there is little research in understanding how specific countries might seek to take advantage of US and allied distraction in a Taiwan conflict, European countries should be exploring how their presence in the Indian Ocean could be used to maintain peace and stability in times of conflict. Likewise, European countries could participate through relieving US forces elsewhere in order to free up US capacity to respond to a Taiwan conflict, while Europe could also work with the US on logistics and intelligence, surveillance and reconnaissance support.

In advance of a Taiwan conflict, Europe and the US, together with Indo-Pacific partners such as Japan and Australia, should continue to signal that a unilateral change of the status quo across the Taiwan Strait is of significant shared concern and will incur consequences. Unified strategic communications to both China and the region that sanctions, for example, are likely to be implemented could be a dissuasive factor for China in the event of a potential unilateral advance against Taipei.

Indeed, signalling publicly and privately that a unified response to a Taiwan conflict, as was the case when Ukraine was invaded by Russia, is an important step in signalling that the cost of such action is not in Beijing's favour. This may not ultimately sway China entirely from taking forceful

reunification off the table – Beijing may feel that time is not on its side, or that the cost is ultimately worth it. However, the signal will also be received by countries in the Indo-Pacific who question Europe’s long-term sustainable engagement in the region.

As of July 2022, 695,133 migrant workers from Vietnam, Indonesia, the Philippines and Thailand were living in Taiwan.⁴⁵ In the case of a conflict, Southeast Asian countries who might not necessarily feel compelled to become involved in a regional conflict will at the very least be concerned about non-combatant evacuation. These are ways in which Europe might be able to approach the Taiwan discussion with countries in the wider Indo-Pacific in attempting to understand how countries might respond or seek to cooperate in the event of a conflict.

Finally, in the event of a Taiwan conflict, the logistical challenges will be of a more complex nature than in the case of Ukraine. As an island, Taiwan’s access to replenishing stockpiles may be more difficult. Advance support to Taiwan on stockpiling strategic non-military goods such as medicine and food, could be another area in which Europe could assist Taiwan.

Implications for Transatlantic Relations

European states are moving closer to the United States in their approaches to China, including on discussing the possibility of a Taiwan conflict. However, the perception within Europe that the United States sometimes approaches matters related to China in a self-interested manner with the expectation that Europe fall into line remains at times problematic. The IRA and the October 7 2022 export controls were seen in Europe as case in point of this. Such instances may indicate the need for closer and more frequent communication in the formulation of such initiatives beyond existing levels.

However, on some matters, the United States and Europe may need to agree to disagree. This is not necessarily a weakness in the relationship. Indeed, maintaining differing positions on issues affords countries in the Indo-Pacific a third option beyond what would otherwise appear to be a choice between China and the US and its allies and partners. Local agency is often forgotten in the discussion around gaining wider influence. Ultimately, countries in the region may or may not seek out European or American alternatives to Chinese economic or security proposals, but a growing number of options to choose from is at least welcome.

Furthermore, independent European positions on matters of mutual concern around China signal to both Beijing and the wider Indo-Pacific that certain matters – whether human rights in China, military assertiveness and contravention of UNCLOS in the South China Sea, or the lack of a level economic playing field and use of economic coercive tactics – are not simply concerns of the United States or, according to Beijing’s narrative, an attempt by Washington DC to prevent China’s rise.

⁴⁵ Randy Mulyanto, ‘Southeast Asian Migrant Workers in Taiwan Sweat over China Tensions’, Asia Nikkei, 1 September 2022, <https://asia.nikkei.com/Politics/International-relations/Taiwan-tensions/Southeast-Asian-migrant-workers-in-Taiwan-sweat-over-China-tensions>

Finally, given the US' domestic political hurdles in joining international legal frameworks such as UNCLOS or regional agreements such as the Trans-Pacific Partnership, European inclusion ensures that the transatlantic partners can at the very least coordinate through EU or UK membership in these platforms despite the US' absence. Furthermore, US absence from these various frameworks does not present a significant obstacle for further cooperation in the transatlantic partnership.

In order to strengthen transatlantic cooperation on China and the Indo-Pacific, the US government and Congress should continue to build on their existing partnerships with European countries and the EU in a variety of ways.

Firstly, the United States and Europe should to the greatest extent possible share their understanding of China, its domestic economic, political and security landscape, and the overseas manifestations of Chinese ambition and interest in shared geographic areas of interest including the Indo-Pacific and multilateral bodies. While understanding of China and its foreign policy approaches are growing in Europe and some countries like the UK have pledged to place greater resource prioritisation in building capacity in China expertise within government, there is still a diverse and uneven knowledge base across Europe.

Secondly, divergence in approaches to China and the Indo-Pacific region, whether through maintaining dialogue, being present in specific regional organisations, or placing greater focus on specific sub-regions or policy areas, should be seen as beneficial to the transatlantic relationship. Burden sharing will ultimately be required in such a vast region. However, shared underlying principles between Europe and the US are required in order to present a unified position on China to Beijing and the wider Indo-Pacific region. Existing forums for transatlantic discussion on China and the Indo-Pacific could be further enhanced in order to deepen deliberation and generate actionable plans.

Thirdly, European diversification of supply chains in order to avoid strategic dependence on China is welcome. However, some US initiatives such as the IRA and the October 7 2022 export controls send the wrong signal to Europe that the United States is not a team player in ensuring Europe too remains prosperous and secure while shifting supply chains away from Beijing. Although the Biden Administration's approach to consulting European partners has been widely recognised as a significant improvement from previous Trump Administration's 'America First' approach, more careful communication appears to be required.

Fourthly, the US should encourage greater discussion with Europe on their respective potential roles in the Indo-Pacific, particularly around their responses to a range of Taiwan conflict scenarios. This should include discussions on actions beyond Taiwan's immediate region and the Pacific and consider other Indo-Pacific sub-regions. It should also ensure coordinated public and private signalling to Beijing and the wider Indo-Pacific region of transatlantic unity in its concern over the Taiwan Strait and its commitment to respond to unilateral action.

Finally, greater opportunities for European partners to engage in defence industrial partnerships with US allies like Japan, through examples such as GCAP, should be encouraged in order to promote greater defence interoperability and a more integrated defence industrial network of like-minded partners and allies.

OPENING STATEMENT OF IVAN KANAPATHY, SENIOR ASSOCIATE (NON-RESIDENT), FREEMAN CHAIR IN CHINA STUDIES, CENTER FOR STRATEGIC & INTERNATIONAL STUDIES

COMMISSIONER FRIEDBERG: Thank you very much. Mr. Kanapathy?

MR. KANAPATHY: Chairman Bartholomew, Vice Chairman Wong, Commissioner Mann, Commissioner Friedberg and other members of the Commission, thank you for the opportunity to testify today. My written and spoken statements are my personal views and not intended to represent my employers or affiliated institutions, either past or present. I'll briefly offer my assessments of U.S.-Europe convergence on China policy, including export investment restrictions and Europe's approach to Taiwan.

European views of China vary widely. There is disparity among the countries, within each country, and between the various EU institutions. Since 2019, the European Commission has characterized China as simultaneously a partner, a competitor, and systemic rival. While the Baltic States and the Czech Republic find themselves on one end of the spectrum, the EU's largest economies and most dominant policy voices are on the other.

As evidence of last month's G7 summit, the United States and Europe are rhetorically converging on several aspects of the China challenge. There remains, however, a significant gap in substantive practical actions taken and under consideration. As early as 2017 in trilateral ministerial meetings with the U.S. and Japan, Brussels had already agreed to coordinate joint actions to counter China's unfair economic practices.

But since then, the United States has sprinted ahead in taking real steps while Europe continues to lag. Therefore rather than convergence, a more apt depiction may be that European allies are trailing behind in diagnosing the threat, even as the United States take prescriptive actions to counter the CCP. EU policy actions will lag alongside the biggest players, France and Germany.

As a whole, Europe's current mindset is comparable to Washington around 2016. Western Europe is gradually conceding that the China dream is over. But it remains relatively frozen in action, unable to implement a meaningful change in policy direction.

Ultimately, Germany's outsized corporate dependence on China, along with France's Gaullist ambitions to lead a strategically autonomous Europe will continue to limit Europe's approach to China. For example, while the European Commission has repeatedly expressed support for export controls to counter China's Military-Civil Fusion Strategy, the EU has yet to move forward with actual restrictions. Last month, the Commission floated the idea of limiting trade with countries including China that are allowing circumvention of the export controls on Russia.

But sensitive to any loss of access to the China market, Germany and Italy immediately pushed back on the proposal, ultimately watering it down. Given individual member states' varying interest in Europe's consensus oriented culture, any future EU export control regime would likely be nonbinding, toothless, or both. As long as Europe remains relatively passive, U.S. business concerns about offshoring are justified.

If U.S. companies cannot ship certain technologies to China, then foreign competitors will gain uncontested markets and multi-nationalists will be incentivized to shift development and production outside U.S. jurisdictions to serve that China market. For advanced technologies, Europe, Japan, and the UK are the primary jurisdictions that could benefit in such a situation. Of

those, Europe is the least aligned with the U.S. national security concerns about China and therefore most likely to exploit regulatory advantages.

Similarly on the topic of investment restrictions, despite U.S. efforts, G-7 leaders did not commit to stopping sensitive technology transfer to Beijing by curbing certain investments in China. Here again, Europe tends to lean farther forward with words than with deeds. Shifting gears to Taiwan, U.S. diplomatic efforts have awakened allies to the fact that a Taiwan contingency would plunge the world economy into depression due to Taiwan's criticality to global electronic supply chains.

To say that Europe has a stake in preserving peace across the Taiwan Strait is a gross understatement. Since, then-Speaker Pelosi visited Taiwan in August. More than a dozen European countries have dispatched high level officials or parliamentarians to Taipei, countering Beijing's campaign of diplomatic isolation.

And NATO is also increasing its engagement with Taiwan. While difficult to quantify, these visits do enhance deterrence by reminding Beijing that aggression will elicit responses well beyond Washington and Tokyo. After Beijing had successfully suppressed European arm sales to Taiwan for more than 20 years, France approved a weapons deal with Taipei in 2020, followed this year by the UK and Norway, and possibly in the near future the Czech Republic and Sweden.

Still, Washington cannot ignore French President Macron's recent comments about a Taiwan crisis. Quote, the worst thing would be to think that we Europeans must become followers on this topic and take our cue from the U.S. agenda and a Chinese overreaction, end quote. France also reportedly opposes NATO opening a coordination office in Japan.

If a conflict in the Pacific should break out, European countries are unlikely to have the will or capacity to send forces to the front lines. Allow me to conclude with three takeaways. One, U.S.-Europe convergence has its limits.

On Taiwan, Europe feels neither the same urgency nor responsibility as the United States. And despite Europe's rhetoric on human rights, commercial interests dominate economic policymaking at the country level. Regardless of rhetorical convergence, Europe's actions will continue to lag in both time and rigor.

To protect vital U.S. interests including the preservation of U.S. military advantages, Washington should not hesitate to employ unilateral and extraterritorial economic tools when necessary. Two, the United States should lead by example in de-risking from China. By moving first on import, export, and inbound investment restrictions, the United States demonstrated political resolve and set regulatory precedence.

Europe is following months, if not years, later with lesser breadth of action. But it is moving in the right direction. For outbound investment restrictions, bold U.S. steps could likewise catalyze European allies.

And three, the United States should elevate Taiwan's engagement with Europe. If China concludes one day that it can sustain the military and economic responses from the United States and Japan, it may not be deterred from invading Taiwan. Therefore, European signals previewing firm substantive responses could complicate Xi Jinping's decision making.

This is more credibly conveyed if European countries increase their interconnectivity with Taiwan. That's diplomatically, economically, and militarily showing that they also have direct interest in preserving peace. Here too Washington must lead by example, creating space in its wake for allies to follow. Thank you. I look forward to your questions.

PREPARED STATEMENT OF IVAN KANAPATHY, SENIOR ASSOCIATE (NON-RESIDENT), FREEMAN CHAIR IN CHINA STUDIES, CENTER FOR STRATEGIC & INTERNATIONAL STUDIES

June 15, 2023

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Testimony before the U.S.-China Economic and Security Review Commission
Europe-China Relations and Transatlantic Cooperation

Written Statement:

Introduction

Chairman Bartholomew, Vice Chairman Wong, Commissioner Mann, Commissioner Friedberg, and other members of the commission, thank you for the opportunity to testify today. My written and spoken statements are my personal views and are not intended to represent my employers or affiliated institutions, past or present.

My prepared remarks today present my assessment of three main topics. The first is European views of China in a strategic context; the second is Europe's use of trade and investment restrictions to address Beijing's multiple challenges; and the final topic is Europe's approach to Taiwan. (I do not include the United Kingdom (UK) in this analysis but would be happy to provide my thoughts on the UK in response to your questions.)

1. Views of China

European views of China vary widely. There is disparity among the countries, as well as within each country. The same is true among the multilateral governance institutions that make up the European Union (EU). The Nordic countries have [grown](#) skeptical of China in recent years, owing to assessments of and disputes over telecom security and human rights. And having lived under the thumb of communism themselves, the former Soviet Bloc states of Central and Eastern Europe (CEE) grasp Beijing's intentions and [perceive](#) its threat vectors better than Western Europe. The effective disintegration of the 17+1 China-CEE countries framework in recent years is a symptom of: (1) China's [failure to deliver](#) on economic promises, (2) Beijing's outright [bullying](#) of Lithuania, and (3) Xi Jinping's diplomatic [support](#) for Vladimir Putin. One notable exception is Hungary, which welcomes People's Republic of China (PRC) investment to perpetuate clientelism and has often [acted](#) on China's behalf within the EU.

As in the United States, European lawmakers who are vocal about China take a hawkish view. This is evident in the European Parliament, where some members openly [urge](#) the European Commission to approach China on the basis of reciprocity, mutual respect, and respect for international law. However, as the various EU heads of state together provide political direction to the EU, it is difficult for the EU to articulate a singular strategic view. In 2019, the European Commission [characterized](#) China as simultaneously a cooperation and negotiation partner, an economic competitor, and a "systemic rival

promoting alternative models of governance.” The EU has maintained this expansive triptych of partner, competitor, and rival ever since.

While Lithuania, the Czech Republic, and others find themselves on one end of the spectrum, the EU’s largest economies and most dominant policy voices find themselves on the other. In 2019, after the United States declared China a “strategic competitor using predatory [economics](#)” and [highlighted](#) its many dangers, Italy joined the PRC’s Belt and Road Initiative, and is only now [reconsidering](#). In late 2020, with unprecedented unilateral U.S. tariffs on PRC imports still in place, Germany pressed for an EU-China bilateral investment agreement. And in April 2023, with U.S.-China diplomacy frozen after a PRC spy balloon traversed North America, French President Emmanuel Macron paid a state visit to China and [declared](#) that Europe would not become a U.S. “vassal.” In addition to signaling transatlantic disunity, Macron’s decision to separate France from the European Commission on CCP General Secretary Xi Jinping’s home turf [was a further victory](#) for Beijing’s divide-and-conquer strategy.

As evidenced at last month’s G7 summit, the United States and Europe are rhetorically [converging](#) on several aspects of the China challenge. There remains, however, a significant gap in substantive practical actions taken and under consideration. The U.S.-EU Trade and Technology Council, which U.S. national security officials hoped would coordinate joint actions to tackle China, has been hijacked by Russian aggression and U.S.-EU bilateral issues such as data privacy and protectionism. At the ministerial three weeks ago, European Commission Executive Vice President Margrethe Vestager said: “We don’t have a European approach to [China]. There’s no sort of European prism through which we can see the question of economic [security](#).” And in describing U.S.-EU convergence after the meetings, U.S. Commerce Secretary Gina Raimondo caveated: “Of course, the EU and the member-states will have to make their own decisions, as will the United States, as to what’s in their best interest.”

As early as [2017](#), in trilateral ministerial meetings with the United States and Japan, Brussels had already [agreed](#) to coordinate joint actions on China. Since then, the United States has sprinted ahead in taking real steps while Europe continues to lag. In reality, Macron was simply [voicing](#) a sentiment shared across much of the continent—that Europe has its own strategic interests that don’t always align with those of the United States.

Rather than converging, a more apt depiction may be one in which European allies are trailing behind in diagnosing the China challenge, even as the United States takes prescriptive actions to counter the threats from Beijing. EU policy actions will lag alongside France and Germany, especially given the emphasis on consensus in Europe. Europe’s current mindset is akin to Washington around 2016 or 2017. Western Europe is gradually conceding that the China dream is over, but it remains relatively frozen in action—unable to implement a meaningful change in policy direction.

To be fair, the French military establishment has long recognized China as a threat but cannot convince the economic ministries or political leadership to acknowledge the risks—the same dynamic, of course, was true in Washington less than a decade ago. And in Germany, the coalition government includes the Green party, which has long been skeptical of Beijing. Two months ago, Green leader and Foreign Minister Annalena Baerbock delivered a direct public rebuke to Beijing on Chinese soil, warning that “a unilateral and violent change in the status quo would not be [acceptable](#).” In addition, China’s popular

image in Europe is on the decline. Public polling [shows](#) plummeting favorability ratings in recent years. But ultimately, Germany's outsized corporate dependence on China, along with France's Gaullist ambitions to lead a strategically autonomous Europe, will continue to limit Europe's approach to China going forward.

2. Restricting trade or investment with China

Import Restrictions. The CCP's perpetration of genocide and crimes against humanity against ethnic minorities is contributing to Europeans' worsening views of China. Just as the United States made that determination in January 2021, Germany had affianced the EU to China through a new investment agreement which would have further deepened economic integration. However, the EU [sanctioned](#) four PRC officials and one entity two months later for human rights violations. And when Beijing issued retaliatory sanctions on sitting members of the European Parliament, opposition finally [coalesced](#), resulting in the suspension of the investment deal in May 2021. A year later, Germany's Economy Ministry [announced](#) it would no longer offer investment guarantees for new commercial projects in Xinjiang due to human rights abuses.

In January 2023, the German Supply Chain Due Diligence Act [came](#) into force, requiring large companies in Germany to investigate their supply chains for environmental and human rights risks. And in 2025, the EU plans to have a law in place prohibiting the importation of goods produced with forced labor. This will bring the EU largely in line with U.S. law [passed](#) in 2015, which eliminated an exception to the Tariff Act and effectively prohibited bringing such goods into the United States. Since then, the United States has [blocked](#) shipments of tainted PRC products such as apparel, hair products, seafood, agriculture, and polysilicon.

In all likelihood, the new EU provisions will not be effectively enforced unless and until investigative reporters, think tanks, or NGO researchers uncover malfeasance by PRC-based suppliers. Unfortunately, Beijing is now further restricting foreign access to PRC supply chain information by hindering on-the-ground due diligence work and outside access to PRC economic data. This will make it more difficult for civil society to expose forced labor violations and for government agencies to collect the information needed to validate trade restrictions. To incentivize transparency, the EU could change the presumption and shift the onus onto the importer to show innocence, rather than burdening the government with proving guilt. This is the approach mandated by the Uyghur Forced Labor Prevention Act (UFLPA), which applies to goods and inputs from Xinjiang bound for the United States. In the first year of UFLPA implementation, U.S. law enforcement [detained](#) shipments valued at more than a billion U.S. dollars.

Export Restrictions. European countries participate individually in technology export controls through the Wassenaar Arrangement, which is non-binding and remains functionally aimed at preventing proliferation of dual-use items to rogue states and terrorists. Wassenaar is a consensus-based organization that counts Russia as a member; it is not an effective platform to coordinate controls against strategic competitors.

While the European Commission has repeatedly [expressed](#) rhetorical support for EU-level export controls to counter China's military-civil fusion strategy, the EU has yet to move forward with actual

restrictions. Last month, the European Commission floated the idea of limiting trade with countries, including China, that are allowing circumvention of the comprehensive Western export controls on Russia. Sensitive to any restrictions affecting the China market, Germany and Italy immediately [pushed](#) back on the proposal, ultimately [watering](#) it down. Given individual member states' varying interests and Europe's consensus-oriented culture, any future EU regime would likely be non-binding, toothless, or both.

As long as Europe remains relatively passive, U.S. business concerns about offshoring are justified. If U.S. companies cannot ship certain technologies to China, then foreign competitors will gain an uncontested market and multinationals will be incentivized to shift development and production outside U.S. jurisdiction to serve the China market, possibly weakening the U.S. technology industrial base over time. For advanced technologies, Europe, Japan, and the UK are the primary jurisdictions that could benefit in such a situation. Of those, Europe is least aligned with U.S. national security concerns about China and therefore most likely to exploit regulatory advantages for economic gain.

In 2019 and 2020, the U.S. government privately coordinated with the Netherlands and Japan to prevent the delivery of the most advanced semiconductor manufacturing equipment, including extreme ultraviolet lithography machines, to China. In October 2022, Washington went even further, expanding the thresholds for logic chipmaking and adding comparable restrictions for memory and storage chipmaking. The Japanese recently matched U.S. controls and the Dutch will soon too. German equipment manufacturers, particularly in optics, also produce critical unique tools used in the manufacturing of advanced semiconductors—but at present Germany has not indicated that it will impose export controls to align with those of the other allies.

In October 2022, the United States also imposed extraterritorial controls on advanced computing and artificial intelligence chips, supercomputer inputs, and specific end users involved in developing advanced computing capabilities for military applications. This type of extraterritorial control, first deployed against Huawei 5G telecoms in 2020, restricts companies worldwide if they use certain U.S. technology in their processes. However, current U.S. licensing decisions [favor](#) certain U.S. companies while restricting foreign competitors. This severely undermines U.S. credibility among allies and partners, as these favored U.S. companies effectively gained a U.S. government-enforced monopoly to provide China with sensitive technologies.

Investment Restrictions. While the EU did pause its pursuit of a market-opening investment agreement with China, it has not reversed course. Last month, despite U.S. efforts, G7 leaders did not agree to prevent sensitive technology transfer to (or development by) Beijing by curbing certain technology investments in China. Here again, the European Commission [leans](#) farther forward with words than European countries are willing to fulfill with deeds. While attending the summit, German Chancellor Olaf Scholz instead [committed](#) to continuing large investments in, supply chains through, and exports to China.

One bright spot, however, is inbound investment. Europe appears to be catching up to the United States in blocking risky PRC investments. This follows many years of U.S. encouragement and engagement across various European capitals. The EU adopted its Foreign Direct Investment Regulation

in 2019 and operationalized it in 2020, creating a framework for member states to share information and align their screening mechanisms. The overwhelming majority of member states [have](#) or will soon have regimes to review inbound investment that may affect critical infrastructure or supply chains, sensitive technologies, personal data, or the media. In the past year, Italy has [reversed](#) and Germany has [reduced](#) PRC port investments and both countries have [blocked](#) PRC semiconductor industry investments.

3. Approach to Taiwan

U.S. diplomatic efforts have awakened allies to the fact that a Taiwan contingency would plunge the world economy into depression, due to Taiwan's criticality to global electronics supply chains. One study [predicts](#) an annualized global loss of more than two trillion U.S. dollars. To say that Europe has a stake in preserving peace across the Taiwan Strait is a gross understatement.

In July 2020, the U.S. and Australian foreign and defense ministers issued a joint statement that included familiar U.S. ripostes about Taiwan—but quite novel coming jointly with another country. For example, the statement [called](#) for a peaceful resolution of cross-strait differences, without threats or coercion. The next year, shortly following U.S. presidential joint statements with Japan and South Korea [stressing](#) the “importance of peace and stability across the Taiwan Strait,” the G7 summit [underscored](#) the same, along with a few other pointed criticisms of Beijing. This message is now routinized in joint statements among close allies.

Following in the footsteps of the United States and Japan, Germany is promising EU subsidies to entice Taiwanese chipmaker TSMC to build a foundry there. Despite CCP propaganda, this is not an effort to “hollow out” Taiwan's semiconductor industry. In fact, the opposite is true. Cross-border investment ties, especially in the complex semiconductor industry, enhance deterrence through increased interdependence. TSMC's overseas fabs will not function without an ongoing exchange of talent, supplies, and information with counterparts in Taiwan. By adding more strands to the web of Taiwan's international connections, Berlin will have more skin in the cross-strait game, and Beijing will perceive more costs for acting out violently.

Since House Speaker Nancy Pelosi visited Taiwan in August 2022, more than a dozen European countries have dispatched high level officials or parliamentarians to Taipei, countering Beijing's campaign of diplomatic isolation. The North Atlantic Treaty Organization is also [increasing](#) its engagement with Taiwan and presence in the region. While difficult to quantify, these visits enhance deterrence by reminding Beijing that aggression will elicit responses well beyond Washington and Tokyo.

On the security front, in April 2023, the European Commission's Foreign Minister Josep Borrell urged “European navies to patrol the Taiwan Strait to signify Europe's commitment to freedom of navigation in this absolutely crucial area” because Taiwan “concerns us economically, commercially, and [technologically](#).” After Beijing had successfully suppressed European arms sales to Taiwan for a quarter century, [France](#) approved a weapons deal with Taipei in 2020, followed this year by the [UK](#), [Norway](#), and the [Czech Republic](#), with possibly [Sweden](#) and others to follow soon.

Still, Washington cannot ignore Macron’s recent comments about a Taiwan crisis: “the worst thing would be to think that we Europeans must become followers on this topic and take our cue from the U.S. agenda and a Chinese [overreaction](#).” Looking past the tactlessness, one finds honest pragmatism in his words. The United States has [contributed](#) more total assistance (military, humanitarian, and financial) to Ukraine than all EU institutions and countries combined—and that’s for a war in Europe. If a conflict in the Pacific should break out, European countries could possibly impose some sanctions, but they are unlikely to have the will or capacity to send forces to the front lines, especially as the United States would be shifting assets away from the European theater.

Conclusions and recommendations

1. **U.S.-Europe convergence has its limits.** U.S. officials warn of conflict this decade and the president intends to send U.S. troops if Taiwan is attacked. Europe feels neither the same urgency nor responsibility. As such, the imperative to cut business ties involving dual-use technologies is stronger in Washington than European capitals. And despite Europe’s rhetoric on human rights, commercial interests dominate economic policymaking at the country level. Regardless of converging rhetoric about China, Europe’s actions will continue to lag in time and rigor. To protect vital U.S. interests, including the preservation of U.S. military advantages, Washington should not hesitate to employ unilateral and extraterritorial economic tools when necessary.
2. **The United States should lead by example in de-risking from China.** By moving first on human rights-related import restrictions, advanced technology export restrictions, and national security inbound investment restrictions, the United States demonstrated political resolve and set regulatory precedents. Europe is following months, if not years, later and with lesser breadth of action—but it is moving in the right direction. For outbound investment restrictions, bold U.S. steps could likewise catalyze allies. The U.S. private sector should invest in the United States, allies, and partners, strengthening them rather than a potential adversary.
3. **The United States should elevate Taiwan’s engagement with Europe.** Beijing likely believes the United States and Japan will respond militarily and impose sanctions on China in the event of PRC cross-strait aggression. If China concludes one day that it can deny intervention during and sustain its economy after an invasion, as Vladimir Putin believed in 2014 and 2022, Xi Jinping will likewise not be deterred. Therefore, European signals previewing firm and substantive responses could complicate Xi’s decision-making. This is more credibly conveyed if European countries increase interconnectivity with Taiwan—diplomatically, economically, and militarily—showing that they too have direct interests in preserving peace. Given Beijing’s sensitivities to Taipei’s international engagement, Washington must lead by example, creating space in its wake for allies to follow.

This concludes my testimony; I look forward to your questions.

PANEL III QUESTION AND ANSWER

COMMISSIONER FRIEDBERG: Thank you very much. Vice Chair Wong, I know you have to leave early. So I'll give you the first question.

VICE CHAIRMAN WONG: Thanks, Aaron. I appreciate it. My question goes to Dr. Oertel, and I hope I'm saying your name correctly. You had mentioned that the public formulation of a range of sanctions in Europe that they could impose on China would be obviously politically problematic and diplomatically problematic I assume. My question for you, though, assuming that it is not happening, this wouldn't preclude private or out of the public eye formulation of sanctions as well as coordination on that range of sanctions of the United States. Or do you see a problem with that as well?

DR. OERTEL: No, I think there is and also we are very clear about that. There is a range of conversations ongoing as we speak about what kind of needs to be done, what can be done and what is sensible, what will work, what will not work. I do think that the point that I wanted to make with the 51 percent being in favor of sanctions, if, even if there is serious harm to western economies, there's a point that is as soon as European publics understand the direct impact, and this is on European policymakers to convey the direct impact that Chinese actions have on European citizens, then there is also a public majority to be gained in terms of finding support for this.

So I think the disconnect here is in kind of constructing that direct impact. And I think in terms of arms deliveries and ammunition deliveries, direct impact can be -- it's very palpable. It can be seen. Is it understandable for European citizens that this is a problem. And therefore then you create very different kinds of majorities in Europe. And I think in the more abstract versions of this of threat perceptions, this direct connection needs to be established in the way European policymakers talk to their own publics.

VICE CHAIRMAN WONG: And just another question. In your testimony, you talked about the divergence and also in your written testimony the divergence between public opinion and those of policymakers or bureaucrats or diplomats on the severity of the China challenge and that's an issue. But am I wrong or would you agree that the way that issue manifests in frustrating policy is in a divergence between elected officials because they are responsive to the public -- a divergency between elected officials and bureaucrats and diplomats where at least in my experience, in my discussions with people who do this for a living, they're more forward leaning than their elected officials. And is that because the elected officials are more connected to public opinion?

DR. OERTEL: I would not say that that is true from my experience in talking to European parliamentarians and talking to European bureaucrats. You will find both on both ends of this. But particularly among European parliamentarians and in European parliaments -- parliaments across Europe, we have seen very vocal position against current Chinese practices. In the Swedish parliament, in the Dutch parliament, we've seen it in the Czech parliament. They have discussions in the German parliament that have actually kind of really changed, for example, the conversation around 5G. So I wouldn't say that that difference is particularly striking.

I do think that the alignment among bureaucrats across Europe is stronger than one might think. We are having very, very constant conversations across all ministries and all European member states. I travel across Europe all the time.

The amount of alignment particularly in foreign ministries that is growing in comparison to five years ago is very striking. So there is a lag now in terms of how this comes together on the public opinion side and it comes together on the policymaker side. But we haven't had degrees of, like, real strong divergence on issues that really mattered.

If you think about, for example, the Xinjiang sanctions. We have every member state on board for that. There wasn't a breaking of the consensus in that regard. So I would see the glass half full when it comes to unity and convergence on these matters and actually transatlantic convergence as well as the conversations, for example, in the U.S.-EU TTC also show.

VICE CHAIRMAN WONG: Thank you.

COMMISSIONER FRIEDBERG: Chair Bartholomew?

CHAIRMAN BARTHOLOMEW: I'm going to pass on this round. I might have some questions at the end.

COMMISSIONER FRIEDBERG: Okay. Commissioner Borochoff?

COMMISSIONER BOROCHOFF: Thank you. Thank you all for your testimony today. There's a common theme amongst all three of you today that you're not all saying the same thing. But one part that you are talking about is this what I sense a lack of trust in the motivation behind our concerns as a country when we go to our European partners.

And I say that because, Dr. Oertel, you talk about the keep China down possibility that people think we have an ulterior motive in addition to the obvious motives. And Ms. Nouwens, in one of your recommendations, you're saying we need to build up the existing relationships which clearly indicates maybe they're not doing so well. And Mr. Kanapathy, I hope I said that correctly.

I liked every single thing you said. You're clearly also a military guy. And you're touching on the fact that this is what needs to be done. And a lot of people aren't paying attention because you didn't say it pejoratively.

But you did say, these people -- there are a lot of people that think this is just -- they're just being dominated by these economic concerns. So I have one question. And my question is these countries, Eastern Europe that we're talking about that we want to be our partners, do they feel like they're our partners?

And I would ask any of you to explain that. And if you think they don't, what can we do to change that? I could've asked a question nobody even agrees with. It's a yes or no question. Okay. Nobody wants to answer? Go ahead.

MR. KANAPATHY: Yeah, Commissioner. Thanks for that question. I actually think in Eastern Europe we're quite popular these days and Scandinavia. It's probably Western Europe where things are not quite as aligned.

COMMISSIONER BOROCHOFF: Because of Ukraine?

MR. KANAPATHY: I think not necessarily because of Ukraine. Maybe accentuated by Ukraine is why we've got more support in Eastern Europe now. But I think sort of where the Germanies and the France and Italies kind of sit is more longstanding before this latest round of Ukraine.

And I think that we actually have diversion. They're not always going to converge our interests frankly. In a lot of ways, we compete with France. We compete with Germany.

I mean, we have to be honest about that. And when we labeled China as a competitor, right, that's not that different than how I think they often view us, especially when we talk about economic issues. And then there is also the geographic fact that they're not Pacific nations.

And so the military sort of threat weights I think quite a bit less with our presence in the Western Pacific and our history there. And those are things we have to acknowledge now, as I mentioned earlier the fact that even a blockade on Taiwan would have just massive effects on their economies, I think is helpful. But that is something that is just dawning on even the Western Europeans maybe in the last year and not before that.

COMMISSIONER BOROCHOFF: Thanks.

MS. NOUWENS: Maybe just to add to that, I agree with what Ivan said already. I think in Eastern Europe, though, there's also a little bit of a quid pro quo: U.S. coming to the aid over Ukraine and supporting European security in exchange for Europe and especially Eastern Europe.

Also caring more about the Indo-Pacific is certainly at play.

I think when it comes to some of the other countries that I was referring to in my testimony, there is that sense that I think through the IRA which did take countries by surprise and also the extent of the export controls on October the 7th. Whilst there had been discussions, for example, the extent to which the U.S. went in the initial outline of the export controls took certainly businesses by surprise as well.

And I think this really comes down to an ultimately fundamental different view of the international order and the potential relationship with China. I think there's a sense that the United States has made up its mind about China and that there is only one path forwards. Whilst in Europe, there's still more of a diversified perspective on how to gauge with Beijing and what the opportunities for leverage there are, including a greater sense of dialogue as potentially leading to understanding. So in that respect, this, I think, really builds on that lack of trust as you said which is why I also said that whilst there is engagement with Europe, more, I guess, honest, candid, and certainly longer lead times in debates around some of these questions is required.

DR. OERTEL: If I may add on this point, I think it's just really important to stress that the rhetorical alignment also from Macron, from Olaf Scholz is very clear and is very transatlantically focused. But we have public opinion data as well again here where the question of how Europeans view what the U.S. is to Europe, at least 32 percent on average said an ally that shares our interest and values and 43 percent a necessary partner with which we must strategically cooperate which I think is quite astonishing figures. And that should give us some pause in how public opinion in 11 EU member states has shifted over the years and how this is going to – what the effect of that will be on the future ability to transatlantically cooperate. I do think that there is a lot of potential. But I do think that there is a big job to be done by European policymakers to make that clear to the European public as well where and when and how this is beneficial.

COMMISSIONER BOROCHOFF: Good answer. Thank you.

COMMISSIONER FRIEDBERG: Commissioner Glas? Oh, I'm sorry. Commissioner Cleveland?

COMMISSIONER CLEVELAND: Thank you. Since we're focusing on strategic priorities, I'm interested in your reaction. Somebody said supporting Russia's threat to use nuclear force would be unlikely to change China's support for Russia. And indeed, they very well inform their thinking on a Taiwan contingency and tactical nuclear weapons.

I'm wondering what your view is on that assertion this morning that Russia's threat is unlikely to change China's support. And then I'm interested in your view on what role NATO may or may not play, may or may not be interested in playing in attempting to persuade China to engage in any kind of nuclear arms control negotiations. And the third question if anybody is

interested is why in the world would Macron oppose a NATO office in Japan. That may be the easiest. No one wants to talk about Russia.

DR. OERTEL: I can happily take particularly your last question which I think is not so super difficult to answer because there is a strong position on the French side to keep NATO out of kind of these kinds of questions and to not enlarge the regional focus of NATO on the Indo-Pacific. And that said, the French role in terms of the Indo-Pacific, I think that has pointed out really clearly this is one of the most important strategic players there. So there's just a kind of choice of fora that is preferred by the French government rather than choosing NATO as the forum for this kinds of engagement.

It is more the kind of bilateral engagements there in the region that are being preferred in terms of how this is being dealt with on the French side. And I think that's something that needs to be taken into consideration what kind of role is NATO supposed to play in the world if it's supposed to be a regional organization or not. Does it actually entail further antagonization if it goes further beyond its area or not?

These are discussions that are very live in the European conversation, particularly in Paris, of course. The other question of whether Russia -- whether Chinese support is going to go down if Russia were to threaten nuclear weapons, I think the Chinese position on this has been a bit ambiguous. This has been the one area in which the Europeans have really banked on Chinese commitment to saying a nuclear war cannot be won.

It cannot be fought and cannot be won. Where Olaf Scholz has come home quite confidently with that statement from the Chinese side perceiving that this is a real support for a real European cause here. I would also be cautious in that Chinese commitment as I would say this may not be as red a line as the Europeans wish it to be.

COMMISSIONER CLEVELAND: Is there any engagement by NATO to encourage Chinese involvement in arms control negotiations?

MR. KANAPATHY: There's no encouragement by NATO that I'm aware of and certainly not during my time in government. I think that just in general on China and arms control negotiations, my view is that China has zero interest whatsoever in arms control negotiations. And we can't change that very easily. I think they think a lot about the Soviet Union and the history and that they regard arms control negotiations as absolutely a critical part of why what happened to the Soviet Union did happen to it. So they regard these types of engagements with the United States frankly and the West as quite dangerous to their own sort of future and their hold of power.

MS. NOUWENS: Just to add to that --

COMMISSIONER CLEVELAND: I understand China's interest. It's the flip side of it which you would think that would necessarily incentivize NATO to be more engaged given their interest. And Dr. Oertel, I think I heard the same arguments for NATO expansion -- opposition to NATO expansion in the very, very early days when we were trying to keep former Soviet Republics, Baltics, and everybody else out.

(Simultaneous speaking.)

COMMISSIONER CLEVELAND: -- a very dated position.

DR. OERTEL: To be clear that I'm not stating my own position here.

COMMISSIONER CLEVELAND: Right.

DR. OERTEL: But just kind of laying out the French position here. Just I would like to distance myself from that as that being my own position.

COMMISSIONER FRIEDBERG: Ms. Nouwens?

COMMISSIONER CLEVELAND: I think what I'm trying to get at is this how aligned are U.S. and European interests in one area. Obviously, it's security interest and whether or not there is an alignment on larger strategic issues. But I think my time is up. So thank you.

COMMISSIONER FRIEDBERG: Ms. Nouwens, you had an answer also.

MS. NOUWENS: Yes, I did. Just in terms of NATO, I think NATO is open to discussion with China on a range of different questions and certainly arms control is an important topic. I do agree with Ivan that China is not necessarily interested in arms control at the moment.

However, I would disagree to say that China is entirely disinterested in arms control. I think the conditions for arms control from China's perspective are certainly just not aligned with those of the United States and other countries. China requires -- I think first it sees the United States and Russia as having the upper hand.

And it, I think, would look towards the United States and Russia for first producing their own stockpiles and their own capabilities before China enters into its own limitations. I think it's very clear that from its own threat perceptions, it feels that it needs to build its deterrence and continues to do so. With regards to the NATO office, I think here again we get back to a point around strategic communications and how incredibly important that is.

China uses a narrative of an Asian NATO constantly around any European or American engagement in the Indo-Pacific. The news therefore leaked that there are rumors of a NATO office in Japan is deeply unhelpful and really plays into that. And then, of course, France's own concerns, in that respect, I think to a certain extent aid China's narrative too. And here, I think, conversations more generally about why this would be an interesting opportunity are incredibly important. The fact that NATO has four very strong partners in the Indo-Pacific, the fact that they are engaging in deeper and more critical relationships now, and that a liaison office to implement some of those forthcoming plans would be helpful is, I think, part of strategic communications that we haven't seen enough of.

COMMISSIONER FRIEDBERG: Thank you. Commissioner Glas?

COMMISSIONER GLAS: I just want to thank you all for your testimony and coming before the Commission today. Mr. Kanapathy, I hope I pronounced your name. Just a question for you and actually open to any of the witnesses.

But I'd start with you. I think we have done a lot of examination about Europe this year and how the European Union is viewing China as both a partner, a competitor, a systematic rival. And even heightened awareness, even though public perception changes by locality and country and it's complicated with certain economic relationships like the one that Germany has with China. But there's generally a move towards de-risking and understanding this sort of consequences associated with Russia's invasion of Ukraine and the coordination or alliance between China and Russia maybe heightening that awareness.

Yet there's sort of a very policy approach in the EU, even in EU member states. There's some positive developments like outbound investments. But then there's some toothless laws that aren't quite there yet on supply chains.

And then maybe a lack of debate or discussion or heightened awareness in some pockets of Europe about the threat about Taiwan. And so I was wondering in all this conversation about de-risking and as we're thinking about our recommendations to Congress this year, I see in your recommendations, you're saying, continue leading by example and hopefully we'll continue

coordinating with our European Union allies and bring them along. What other things can we be doing to help better coordinate around de-risking jointly?

And this is open for anyone. But given the fact that we're so dependent on certain strategic supply chains and given the fact that there's a lot of congressional interest on both sides of the aisle, better and deeper coordination with the EU. What could we be urging lawmakers to do right now?

MR. KANAPATHY: Thanks, Commissioner Glas. There are some goods that I didn't mention in my spoken testimony. But for example, we've seen the EU adopt a Carbon Border Adjustment Mechanism which depending on the implementation and where you have to kind of see it could really sort of help diversification of supply chains away from China.

Certain materials for now but potentially more. It's raw materials, steel, iron, aluminum. And in some ways, we put the United States in 2018 put 25 percent taxes as most of you know on steel and aluminum. And that began some of this diversification which leads to frankly de-risking on the supply chain side.

The other side of de-risking obviously is to reduce the reliance on China market. Frankly, China is helping with that by their own policies in some ways. But it would be useful if we could do things in coordination with the Europeans to open up other markets, presumably developing world markets by, whether that's for infrastructure investments and a lot of the other things that we talk about, but maybe aren't resourced quite as much as they could be.

COMMISSIONER GLAS: Thank you. Any further comments? All right.

COMMISSIONER FRIEDBERG: Commissioner Goodwin?

COMMISSIONER GOODWIN: Thank you, Mr. Chairman. And my appreciation to all the witnesses. Dr. Oertel, I wanted to return to the discussion that you were having with Vice Chairman Wong about the public polling that you've done across Europe which I thought was really fascinating. And in your testimony, you noted some of the differences in the polling results when the question was related to sanctions for activity related to Ukraine and a potential Taiwan contingency which I suppose makes sense, the differences given, the perspective of the immediacy for the European audience and the poll respondents.

But I was curious about the high number of undecideds between the two questions which you also noted in your written testimony. Much higher with regard to the Ukraine question than with Taiwan. So I wanted to get your insight as to whether the data offered, any insight of its own into that difference. And then secondly, in this polling, have you polled any questions related to these new efforts to de-risk and diversify, not only in Europe but also United States efforts, namely the Inflation Reduction Act and what sort of information have you gleaned on that.

DR. OERTEL: So let me get to the first question first which I think is very interesting because the undecided is the issue that also I found the most interesting to look into. The real gap, the big gap that we're seeing in undecideds on the kind of sanctions question when it comes to arms exports to Russia from China is that there is a lot of people that really don't know and are grappling with the really severe consequences. So the number that I didn't quote so far but is in the written testimony is the German numbers, which has 37 percent in favor of sanctions and 38 percent against sanctions because of kind of securing our own economy is more important.

And I think that shows you how really relevant this question is of saying, hang on, what is more important here, destroying our own economy if it has a huge impact in making us unable to act or actually imposing sanctions and sending a strong signal? So that is a very -- I think it is just the undecided number is a question of -- or is a signal of there are -- this is a complicated

and complex question to resolve. But also there is not sufficient communication yet on what the actual impact would be, how the impact could be cushioned, how the impact could be reduced, and why this would be necessary from out of kind of which reasons this would be necessary. On the Taiwan question is actually more interesting because what is undecided in the other question I would say is the neutrality bit in that. So that's 62 percent. Sixty-two percent, are like, we would rather like to stay out of this.

So probably in terms of polling, we never should've given them the option. We never should've said, neutrality is an option here because it actually isn't. And then you would've had a more interesting question.

Then you probably would've had 62 percent I don't know because it is a challenge that is very far away for most of the people here. And I think this is something that Ivan Kanapathy has laid out. This is something that very recently is a debate.

But if I can say I've worked on this for 15 years and this debate has changed so massively over the last two years that you would not believe the kind of discussions we're now having. So while this is going at EU speed and not at warp speed, it is moving. And it is moving in one direction.

We're seeing public media reporting going like a curb like this. If you follow it every day, you'll go mad. But if you look at it from stepping back and kind of zooming out a little bit, it's a very linear trajectory, a very much hardening approach that we're seeing. I don't want us to lose focus of that, where the EU is actually moving on all of these questions at the moment very decisively. And did I forget --

(Simultaneous speaking.)

COMMISSIONER GOODWIN: Yeah, the economic question, any polling data on those questions --

(Simultaneous speaking.)

DR. OERTEL: Yes, we don't have the de-risking data yet. We have polling data on kind of what kind of investments by Chinese actors would you like to see in your country. What things would they, should they be allowed to buy and what things should they not be allowed to buy.

That has moved really clearly in one direction. That is football club may still be all right, but electricity infrastructure not. And that is going into a very interesting zone now, and it's also hardening over the years in comparison to our 2019 data. But I'm happy to provide you all of the kind of concrete data if you like.

COMMISSIONER GOODWIN: That'd be great. Thank you. Thank you, Mr. Chairman.

COMMISSIONER FRIEDBERG: Thank you very much. Commissioner Helberg?

COMMISSIONER HELBERG: Thank you. In the wake of Russia's invasion of Ukraine, a number of prominent German policymakers came out publicly acknowledging that Germany made a mistake by becoming excessively reliant on Russia for energy supplies. To what extent has this experience translated to a German rethink of overreliance on China at all? And this question is addressed for the panel writ large, but we can start with Ivan and work our way through.

MR. KANAPATHY: Thanks, Commissioner Helberg. I think that in the moment it had a huge impact, I think, in Germany. And I know they've been discussing it at length.

One of the problems, though, that we have in Germany is that it became an issue of well because of what's happening with Russia and what it's done to our economy, we cannot move on

China at this time. And I don't know how long that time means, just to kind of not go into even further of a recession, right? And so I think sort of mentally there's an understanding that this has to happen. I think there's a view, I guess, I would guess in Germany. And I would defer to the others who are following more closely but that there's a willingness to really push it off.

MS. NOUWENS: Sure. I mean, maybe I'll just add to that that I think there is certainly that debate around how much economic pain can we really inflict on ourselves at the moment. But I wouldn't say that that necessarily means that the debate around de-risking from China in Germany isn't happening. I think that we have seen shifts in government that we have seen conversations as well in government around the necessity of diversifying supply chains.

The fact that business as well to varying extent also sees risk in investing in China too. That all, I think, has made for a more complex environment that we necessarily have seen in the past. So I wouldn't put it as clear cut as -- or as black and white as Germany is not interested in de-risking from China and lessening its economic reliance on the Chinese market.

DR. OERTEL: If I may add sitting in Berlin, I can promise you the debate on de-risking is very alive and in action here. Actually, the term "de-risking" has been coined in the very early stages by the German chancellor who used it with regard to the relationship to China. I think there's two strands here that we can observe.

And this is the kind of the interesting dynamic that we're seeing. The one strand is the imminence of the problem is very high. And therefore, because the imminence of a kind of massive downturn in the relationship, be it a Taiwan contingency or whatever you may want to have, it's, like, the downturn in the relationship, the breaking of the relationship is very high. Therefore, we need to de-risk as quickly as possible which means lowering all the investments in the country, et cetera.

And then there's the other strand of the debate within the government and within the public as well that says, well, the risk is there. It's not imminent.

It's likely. And because we see a phase of the next five years in which that it's not going to go to the breaking point. And therefore there are certain things that we're going to do, continue to do with China to basically generate enough profits so that we can pay for the transformation process and not shoot ourselves in the foot too much and actually put ourselves in a stronger position.

Both of these positions are positions that you can hold. And this leads to sort of an intellectual conversation at the moment about the imminence and different policy prescriptions that follow from that. And I think this is where a lot of the conversation even within the government coalition currently is of those that say crisis is so imminent that we need to move now and quickly. And the other is saying a crisis is not so imminent. So we better do this from a position of strength.

COMMISSIONER HELBERG: Thank you.

COMMISSIONER FRIEDBERG: Commissioner Mann?

COMMISSIONER MANN: Thank you. I have two or three questions if I get in the time for them. Ms. Nouwens, you created -- you presented a distinction that in my ignorance I hadn't heard before. But that's because I spend more time on Asia than Europe.

Moving from strategic autonomy to strategic sovereignty, what's the difference? And I mean, I link strategic autonomy with France from de Gaulle to Macron. Where does this strategic sovereignty come from and how is it supposed to difference?

MS. NOUWENS: Sure. I think the difference in the shifts in language is really one on severity, I supposed. Autonomy was, I think, very closely linked as I mentioned to autonomy from the United States often in conversations, not necessarily autonomy from China.

And I think in the current climate, certainly in regards to as we've all mentioned now the real shifts in how China is perceived in Europe that de-risking and sovereignty in that respect really comes down to reliance -- sorry, resilience in Europe. And indeed to a certain extent, some sort of a closer reliance on the United States as well to work as a cooperative partner in that respect. So I think it is more in terms of a framing from one where the United States is seen as a competitor to one where the United States is seen as a cooperative partner required as well for securing European economic and diplomatic sovereignty.

COMMISSIONER MANN: So the implicit meaning on sovereignty is how much are we going to deter China from buying European assets, ports, whatever?

MS. NOUWENS: In part. I think that's part of it. But it's also around some of those defensive mechanisms that I mentioned as well in use of trade tools. So a great exploration of that.

COMMISSIONER MANN: Thanks. Dr. Oertel, you've said from the start that in a Taiwan contingency that EU neutrality was no longer possible. And I didn't know whether you meant -- I wanted you to explain that. I wanted to know how that would play out or whether it was a non-starter from the beginning and why.

DR. OERTEL: Yeah, I think this is just motivated also too just point it out again because this was raised in the kind of Macron conversations in the interview he gave on the way back from China. And this kind of -- they would seemingly be this option that Europeans could just stay neutral and stay out of it. And I think everyone who realistically looks at the situation would understand that, A, economically that would not be an option because we would immediately be affected, B, strategically this would not be an option.

All of our partners in the region would look at us and would say, well, that's a very interesting position that you're taking. We followed you along on all of the Russia sanctions, Korea, Japan, Singapore. Kind of uneven if you say so. And then it would not be possible with regard to our relationship with the United States. And so I think it is -- it's misguided.

If European policymakers continue to portray the situation as one where neutrality would be an option and a choice, it would be a situation where Europeans would immediately have to relate to the issue. It would immediately have to respond to the issue be it because they have to actually think about taking on a greater defense security role in their own region because the U.S. will be busy in the Indo-Pacific or be it because of the enormous economic impact that will be had through supply chains but also through the breakdown of the global economy in a scenario like that. So just kind of keeping that illusion of neutrality alive is probably not very helpful in getting Europe to the position of readiness for a scenario like that.

COMMISSIONER MANN: Thanks. And my time is short. But I did want to ask as suspending my life as a reporter, I'm good at creating conflict. But Mr. Kanapathy, you in your nice -- I found it very insightful for you to say Europe is at where the United States was at in 2016 to '17.

But part of that was Europe is not ready to act. And Dr. Oertel, you said that Europe is acting. So do you want to explain -- well, maybe Dr. Oertel wants to explain what the acting is and why you don't believe they are acting.

MR. KANAPATHY: I think just this last few minutes, I mean, Germany, I think -- I don't know what the numbers are -- but invested a bunch of mining in China, including in

Xinjiang just last year, like, a lot. And again, I don't have the figures but we can dig them up. Germany, I think more than half of its 5G kit is Huawei today.

I mean, it just is. And we're going down that same road in six or eight years ago in the United States. And we were having the discussions, and I absolutely am aware not to the degree Dr. Oertel and others are that these discussions are happening in Germany. But that, to me, is very different than taking the hard actions and making the hard decisions.

COMMISSIONER MANN: Dr. Oertel, your thoughts on that.

DR. OERTEL: I mean, I would also like to reference that trade between the U.S. and China has gone up last year just to make that point very clearly as well because I think otherwise this would not be a proper representation of everything that we're seeing. There are a couple of German companies, large players that have enhanced their investments in China. They have gone up in their investments in China that are doubling down and that are more banking on a fragmentation of the system and sort of individual two systems approach in which they operate within China for China and within other parts of the work for the rest of the world.

The large portion though of small and medium sized enterprises that is the backbone of the German economy is having very serious conversation and is stopping investment, halting investment, or actually pulling out of China. And I think this is the bigger part of the story that we need to tell because if you just look at volumes in terms actual dollars spent in the big companies are kind of the more relevant players. But if you look at the broader dynamics that are at play, if you look at what is actually happening on the ground in terms of the frustration level that is there among small to medium sized enterprises, then that is what I see is driving the debates in Europe and in Germany in particular.

And if you think about the 5G case now, it's a very interesting one because, yes, indeed, 65 percent of the German network of the 5G network continue to be Huawei kit. This is a real problem because this is a real shaming and naming exercise as well in Europe now. I think we've seen it today with Thierry Breton's comments that this needs to stop and this needs to end.

This is a case where the European regulatory system-- the German regulatory system is there where there is the kind of legal basis for a ban. And this is acting on the actual implementation of the legal mechanisms that have already been created. So this is more a case of kind of corporate inertia and lobby pressure than it is on the regulatory side.

But these things are moving. And I wouldn't be surprised if we would not be talking about the same thing -- we will not be talking about this in two years' time. But it's moving slowly, and that's true.

But the dependency of the German economy on China continues to be high in certain pockets. And the fact that Germany is a kind of important economic powerhouse in Europe is very key because that also has made Europe kind of more able to withstand certain economic crises. And so there is a kind of weighing and a balancing going on, a certain degree of responsibility also for the overall economic stability of Europe.

COMMISSIONER MANN: Thanks very much. Oh, excuse me. Ms. Nouwens, you have --

MS. NOUWENS: Can I just add two quick points on the two different questions? Just the first on Taiwan and this option of neutrality. Doing nothing also is not neutral.

So in that respect, the question of neutrality is a bit flawed. I would secondly say that the lack of discussion around, one, the Indo-Pacific and the actual presence that Europe already has in the Indo-Pacific as well as the issue of Taiwan and how a conflict in Taiwan or over Taiwan would immediately affect European interests at home is exactly why we are seeing discussions at

the moment or comments that Europe has no place in any sort of response over Taiwan. And this is where I think policymakers, politicians are doing themselves a little bit of a disservice in saying that Europe should stay in Europe.

It should not go to the Indo-Pacific. The Indo-Pacific is vast. A conflict on Taiwan as already has been mentioned will have global ramifications. There is absolutely no studies really being done at the moment as to what other actors might do in the event of a Taiwan conflict to take advantage of American or other distractions in third regions.

And so in that respect, European assets in the Indo-Pacific closer to say the Gulf or within the wider Indian Ocean region could absolutely play an important role. The fact that Europe could also support the United States and partners in intelligence sharing through narrative, combating disinformation and also public signaling, all of these options are ones where I don't think there would necessarily be a huge amount of resistance. But again, they are not being put forward publicly in discussion to see what the reaction actually would be to those. Thanks.

COMMISSIONER MANN: Thanks very much.

COMMISSIONER FRIEDBERG: Commissioner Price?

COMMISSIONER PRICE: Thank you. And again, let me add my voice to all of those who've thanked you for your testimony today. This has been really, really helpful. Dr. Oertel, I wanted to come back to the issue of public opinion because I can't ask the questions too many times even though several of my colleagues already have. Are there entities, civil society, NGOs, others who are working on educating the public? Or is this being left to the legislatures in each region?

DR. OERTEL: So this is a very interesting question at the moment, who is actually leading that changing discourse in China on China in Europe at the moment? This is largely done by think tanks. This is largely done by the research community.

There are various NGOs and civil society organizations mostly in the human rights space that are leading a lot of this as well. There is a strong demand on kind of enhancing education in general on China. Huge initiatives particularly in Germany.

It is actually part of the German Coalition Treaty which is very rare. But it says enhancing China competency in Germany is part of the actual kind of program that the government coalition has put together when it started out working with each other. So there's clearly an attempt towards that, but it's really not where it needs to be.

There's a huge capacity gap at the moment. And Germany is actually in a good place in comparison to many other European states where there's a lot more capacity, where there's a lot more expertise on the ground. The picture is much grimmer when it comes to smaller members states. So this is a huge area where funding is lacking, where kind of a decisive push is lacking. But where also just human capital lacking at the moment there is just not enough people that can actually do this at the moment.

COMMISSIONER PRICE: Any other suggestions on how to enhance that capacity besides just funding? And is there a way for different groups to be working together?

DR. OERTEL: Yeah, I think there's a huge degree of help can be given when this is brought beyond the bilateral round in terms of exchanges that can be done on this issue. What we have noticed over the years is that mere bilateral transatlantic exchanges are not always the most helpful avenue for that. But actually enhancing that through bringing in Japanese scholars or bringing in Taiwanese scholars or bringing in other G7 members can be very helpful in just kind of exchanging views and ideas and exchanging experiences, drawing from kind of

disinformation experiences that Taiwanese have experienced from China to disinformation experiences that Polish have experienced from Russia.

Kind of making those counter comparisons and bringing that closer to life, actually educating not only the China people but educating all of those that are dealing with security questions at the moment. So kind of bringing Ukraine experts and security and military experts to Taiwan at the moment to have these conversations is I think one of the first steps that we can take. But also facilitating actual conversations with Chinese civil society again would be a really important step to take because those channels have broken down almost entirely at the moment. It is very difficult to revive them post-COVID.

COMMISSIONER PRICE: Thank you. My second question was going to be about your recommendations, Ms. Nouwens and Mr. Kanapathy. I'm sorry if I butchered that. But I think you answered a question to Commissioner Glas about some of your recommendations already. But I have a minute and 18 seconds left. So if there's anything you want to add that you didn't have a chance to on your recommendations, I think this is the moment.

MS. NOUWENS: Could I please maybe just come back to the question you just asked? And maybe elucidate a little bit about the situation in the UK. In the UK, it's very much think tank driven. We've seen a proliferation of China focused think tanks and research programs, including in universities.

And of course human rights organizations have of course been incredibly active on issues around Xinjiang, for example. But parliamentarians have also played an incredibly outsized role I would say in bringing greater awareness. The various debates amongst different factions within the British parliament have really given light to the various challenges that China has presented. And at times I think been a greater push point for the government to maybe take stronger action or a stronger position.

And then I would say also the government itself in the integrated review refresh that the government launched this year. It made a commitment to strengthen in-house China capacity which, of course, is -- could always be -- there could always be more of. And then it would also it said reach out and consult more with the private sector. And I think here in terms of different forums of engagement, I think engagement with the private sector particularly amongst government, the think tank community, and in the private sector businesses themselves could be improved and would certainly, I think, come to more creative solutions on how to tackle some challenges vis-a-vis China.

And then finally what we've seen also increasingly more of is sub-state kind of engagement. So there are there think tanks in the UK, for example, who are having discussions around the UK in the different countries and then, of course, in different cities as well as we see that sub-state outreach by China, for example, is one that has, I think, been overlooked often. Thank you.

COMMISSIONER PRICE: Thank you. Anything to add? Okay. Thank you.

COMMISSIONER FRIEDBERG: Commissioner Schriver?

COMMISSIONER SCHRIVER: Thank you, Mr. Chairman, and thank you to our witnesses. Colonel Kanapathy, I wanted to ask you a few questions about Taiwan which I know you do a lot of work on. You mentioned after decades long gap some of our European friends began to provide military equipment and dual use technology to Taiwan's military. Are you aware of any particular sanction beyond diplomatic demarche that these countries faced as a result?

MR. KANAPATHY: No, I'm not aware of any. And we're talking both ship and aircraft, sort of parts and serving for France, I think some submarine parts from the United Kingdom. And I believe Norway has approved licenses now for NASAMS which is obviously a U.S. and Norwegian platform.

No actual -- nothing I'm aware of on the economic front like you said. And as we know, there theoretically have been some retaliation on U.S. companies, including placement on the Unreliable Entities List that China has now of -- I believe it's Raytheon Defense and Lockheed Martin. But even those have not been through any type of actual enforcement.

COMMISSIONER SCHRIVER: Thank you. Certainly we would prefer U.S. solutions for the benefit of our industry. But given the backlog and given the urgency, should the United States be more proactive and encouraging third-party transfer to Taiwan including from our European partners?

MR. KANAPATHY: Yeah, absolutely. I understand there's been some discussion with the Czechs and others. And there are obviously a lot of co-production that goes on between the U.S. and certain European countries and companies. So there are options there. But given the state as we all are aware painfully now, the U.S. defense industrial base and capacity that we have, it seems obvious that this would be something we can all go in on together.

COMMISSIONER SCHRIVER: If the Congress comes through again with FMF for Taiwan and this time in the form of grants rather than loans, should we make an exception and have that money available for a third country providers in addition to U.S. industry?

MR. KANAPATHY: I think that, one, we should absolutely appropriate to that authorization. And then I think that if there are cases based on the capabilities that we assess would be most impactful that we could get in the quickest manner. And I think that's the important thing now is getting things on island quickly. And if that involves third countries, partners, then absolutely. I would support that.

COMMISSIONER SCHRIVER: Thank you. I yield back the time.

COMMISSIONER FRIEDBERG: Commissioner Wessel?

COMMISSIONER WESSEL: I'll add my thanks to our witnesses. And I was told to call you Ivan K. by a good friend of yours. So I'll start there.

This feels like over the last years that there's been a great deal of reluctance by the Europeans to participate and assist us in addressing the China challenge, Huawei, all the things you know, export controls. And now for many a feeling of entitlement by the Europeans. Just prior to the pandemic, European exports of autos were over 400 percent higher than their imports of U.S. vehicles.

And we've seen many other areas where Europe, the EU, has pushed back on certain policies of the U.S., IRA probably being the most recent. And then they jumped in and did their own policies. So going to the question of both polling but also attitudes of America towards Europe's stance, it seems this is increasingly problematic.

There was a -- somewhat of a move towards or against multilateralism during the last administration. There's been deep engagement, but that doesn't really seem to be reciprocated, especially when one talks about U.S. interests in the Indo-Pacific and the hope for support from our allies and friends. Ivan, do you want to take a shot at that first and give me your thoughts?

MR. KANAPATHY: Yeah, I would broadly agree with that assessment, Commissioner. And we've heard -- and I don't take exception that Europeans often feel like we're executing on our China policies without appropriate consultation with them. And that is probably true to some extent, right?

But I think some of the things that you've raised are what sort of resonate more in Washington is that there is this whole Ukraine thing happening which the United States has invested more assistance in across the board, military, otherwise, humanitarian, otherwise, than all of Europe combined. And that's a distinctly European crisis, I think. I mean, it's a world crisis, but that's where it's taking place.

And so I think in Washington, sort of those complaints with the Europeans maybe don't resonate quite as well. I believe personally that we do need to win the Ukraine war. We need to win it decisively.

But I also believe that after that, the United States needs to look very hard at how much it's willing to invest from an opportunity cost perspective in European security, right, as opposed to the Indo-Pacific as an opportunity cost. And some of the -- to be clear, this administration has done a great job with managing some of the prior sort of disputes. For example, Boeing Airbus, I think they're working on getting to an agreement on steel tariffs hopefully later this year and resolving some of those issues as well as issues with some of our bigger internet companies that are, I think, still ongoing.

But if we're able to get to some agreement on those issues and really focus, I would say Europe's attention more on the common problems that would be helpful. I don't have a good way on how to do that. But that would be what we'd like to see.

COMMISSIONER WESSEL: I just don't think the Europeans understand enough about the American people. And Ms. Oertel, I'll ask you if you've done an assessment of any U.S. polling. Again, as Ivan indicated or as I indicated, I won't speak for him, a lot of U.S. workers lost their jobs when energy prices spiked after the initial invasion.

I've talked to a lot of those workers. We've seen political questions increase about support for the Ukrainians. I think our commitment is strong, but that doesn't mean that there aren't people who question it.

The lack of confidence in a shared view about human rights, democracy, et cetera with the EU as it relates to Taiwan is troubling. And I think you said that 62 percent, that's a strong margin. But that gives me great pause about the strength of the alliance as it relates to shared issues. Any thoughts?

DR. OERTEL: Yes, I also have some data there if you want to.

COMMISSIONER WESSEL: Please.

DR. OERTEL: So we have also polled European views on U.S. defense support. And the question of Europe cannot always -- one of the answers was Europe cannot always rely on the U.S. and needs its own defense capabilities. Seventy-four percent of Europeans that we polled across nine countries in this case were in favor of that in comparison to 66 percent in 2020.

Only 8 percent of Europeans that we asked across those nine countries were saying that the U.S. will protect Europe. So Europe does not need to worry about its own defense capabilities. So what I would conclude from that is that there is at least some public support for greater defense spending and greater self-reliance in Europe and not relying on the United States. So that, I think, is a good basis for where a vast portion of European public opinion lands on these questions. There is a strong focus, of course, still on the continued alliance. But I think this is something where we can see that there is this willingness among the public at least to enhance their own capabilities.

COMMISSIONER WESSEL: Thank you. I mean, to me --
(Simultaneous speaking.)

COMMISSIONER WESSEL: I mean, to me, this argues for leadership. And I was schooled at one point that I believe the Marshall Plan was at 13 percent of the polls when it was first announced. It was the right thing to do, but our leaders have to sort of weigh in and lean in a lot more in both the U.S. and EU about our shared interest. And that's not only with regard to the conflict in Ukraine but Taiwan, any potential Taiwan scenario. Please, go ahead.

MS. NOUWENS: I think you're right about the fact that there is a certain complacency sometimes in Europe around these questions, particularly around the export controls, for example. When I spoke to businesses in Europe, the immediate reaction was one of outrage and anger over -- and the IRA for that matter as well that European businesses would suffer. But I would also say that it's on the United States' part to communicate effectively as well that businesses in America are suffering as well.

They will take a hit first, if not in a greater extent as well vis-a-vis European businesses. That message is lost, and it is not communicated in Europe. That is something that European officials can work on. That's something that American officials can work on. When it comes to, I think, then public opinion on European defense capabilities, I mean, I think the fact as has already been stated by my colleague here that the United States has spent more on European defense vis-a-vis Ukraine than all of Europe combined is a huge embarrassment for Europe.

And we see those debates live and well in European capitals around the need for Europe to be able to modernize itself and to have adequate stockpiles in various different areas and to be more serious about revamping its own capabilities in that respect. So I wouldn't say that in Europe there's a perspective that the United States' support has been by default expected and that it requires no adjustment on Europe itself as well. I think that discussion has been seriously understood.

COMMISSIONER WESSEL: Appreciate it. Thank you.

COMMISSIONER FRIEDBERG: Thanks very much. You've all described a situation in which observers in Europe are increasingly coming to the conclusion that it would not be possible to, at a minimum, avoid being terribly harmed by a conflict over Taiwan, whether the right term is remaining neutral. There's no possibility of avoiding terrible costs.

So it would seem to follow then that it's important to deter such a conflict. And then the question becomes, so what can Europe do to help deter such a conflict? One part of the answer it would seem to me would be to credibly threaten to impose maximum economic costs on China presumably through the imposition of sanctions to start with.

And yet from what I understand, there's great reluctance in individual European countries and then at the EU level to be seen to be discussing the possibility of taking such steps. Is that an accurate assessment, first? And secondly, is there a willingness to talk about these things in individual governments or at the EU level, perhaps not doing so openly? How has thinking evolved on that? Ivan, maybe go to you.

MR. KANAPATHY: Yeah, thanks, Commissioner Friedberg. Actually, if I could even just maybe question the premise of what you just said in that I think we need to investigate or explore a little bit more on the one hand we're saying if this goes down with Taiwan, it will crater the world economy. And so I wonder whether a threat of sanctions even matters, right, from a deterrence standpoint.

Depending if Beijing has the same assessment, I'm doing this. I am accepting all the consequences that come with it, in this case, semiconductors and other things. Then does the threat of whatever it is that we think we're cooking up now, I'm not sure.

And so we need to consider whether that type of deterrence works. And I guess I would steer the conversation more toward hard deterrence frankly in some way, shape, or form that could be more effective. Also, and I mentioned it, I think, in my written statement, things like having a TSMC, which I think is being discussed, fab in Germany I think actually enhances deterrence just having more connectivity between Taiwan and other countries. In other words, having other countries have skin in the game. We'll have to figure into the political costs that Beijing has to make assuming they're willing to incur the economic ones.

DR. OERTEL: I think we finally found something where Ivan and I agree. Oh, sorry. I was not --

MS. NOUWENS: No, Janka. Go ahead. You've just started, so --

DR. OERTEL: I was just going to say I agree on the terms of the question if the Chinese government takes a certain decision then the question of are they better at struggling than we are in a case of really economic downturn. The assessment currently in Beijing seems to be that they are better at struggling than western economies are. But I would also say that what we're seeing right now, this really, really, really significant increase in contact points between Taiwan and Europe.

This is real, and it does put skin in the game. And it does change the conversation. The amount of times that media outlets are now asking for interviews on Taiwan and explaining the situation, explaining the historical context, all of that is changing so massively.

And it's bringing that conversation home. When the German foreign minister traveled to China, she did not make a -- although she's from the Green Party and they're often called as the more or less the ideological proponent here, and just the human rights focus. She made a diehard economic argument for European attention to what's going on in the Taiwan Strait.

So I think this is really -- there's a real narrative shift that we can observe. And that has a deterrent effect. This is really discussed in Beijing as well.

COMMISSIONER FRIEDBERG: Okay. We don't have time to pursue it. But I guess my question about that would be the same. Or the possible objection would be the same as the one Ivan raised to the threat of sanctions. Okay. China looks at that. But to what extent does that influence their calculation?

MS. NOUWENS: I mean, I think if we look at their response to Ukraine, the fact that private sectors were pulling out of Russia as well on their own initiative, that did strike Beijing. I think that is one area where Beijing has always thought, well, that's where they have the upper hand. So I wouldn't just dismiss it, that outright.

The fact that China is also quite I think concerned around the export controls, for example, in itself as well also shows that China does care about economic impact, at least for now. I think the more interesting conversation that could be had with Europe beyond to say should Europe employ sanctions or not is under what circumstances. Right now, I think a lot of the discussions that are being had in public, for example, surround the scenario of a full scale attack of Taiwan or maybe a blockade.

But what happens when it's a gray zone attack where things are not clear? What happens when there is potentially a perception that Taiwan was the actor that was destabilizing? How does Europe respond in that respect? Those types of scenarios are under-explored at the moment. And there, I think, European reactions become far less clear than they already are at the moment.

COMMISSIONER FRIEDBERG: Okay. Well, thank you all very much. Does anyone have any final questions? If not, in closing, I want to again thank all of our witnesses for their

excellent testimonies. I also want to take a minute just to thank our outstanding staff for their usual flawless work.

As a reminder, the testimonies and recordings of the hearings will be available on the Commission's website along with a transcript of the event. I'd also like to note that the Commission's seventh and final hearing for this research year will take place on Monday, August 21st. The hearing will examine China's domestic financial challenges as well as current issues in U.S.-China trade and supply chains. And with that, we are adjourned.

(Whereupon, the above-entitled matter went off the record at 3:35 p.m.)