

**Testimony for the Senate Foreign Relations Subcommittee on Europe and
Regional Security Cooperation Hearing: "Aligning Transatlantic
Approaches to China"**

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Chair Shaheen, Ranking Member Ricketts, distinguished members of the Committee. Thank you for the opportunity to talk to you today about transatlantic cooperation on China.

Europe's relationship with China has been worsening for more than half a decade, mirroring the decline in relations between Washington and Beijing.

In past years, European concerns centered around issues of economic competitiveness and market access. But they have since broadened to encompass worries tied to human rights, economic coercion, strategic dependencies, disinformation, and security.

Europe entered a new phase in its relationship with China 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, are cementing the view of China as a competitor and systemic rival. Importantly, the war has also increased awareness, both in European governments and corporate boardrooms, about the risks of a conflict over Taiwan.

Today, there is an intense debate underway in major European capitals about reducing economic dependencies on China. European Commission President Ursula von der Leyen delivered an important speech on March 30th in which she argued for a "de-risking" of the Europe's relationship with China. Over the coming months, Europe will begin the process of defining what de-risking means in practice.

The hardening of Europe's line can obscure differences that exist between the 27 EU member states, and in some cases, within individual European governments. On the hawkish end of the spectrum are a group of eastern

European countries led by Lithuania, which promote a values-based foreign policy. At the dovish extreme is a country like Hungary. The largest EU states, including Germany and France, fall somewhere in between.

As we saw on President Emmanuel Macron's recent trip to China, France stands out for its support of European strategic autonomy – code for an independent Europe that is not overly reliant on China or the United States. Germany stands out for having what is by far the closest economic relationship with China of any European country. According to new figures from Rhodium Group, German firms accounted for 84 percent of total EU foreign direct investment in China last year.

Germany is also the country in Europe where the debate over relations with China is the most intense. Chancellor Olaf Scholz's coalition is divided over how far and fast to go in recalibrating ties with China. Still, it is fair to say that the “win-win” economic narrative that fueled close ties between Berlin and Beijing in recent decades is increasingly being eroded by conditions on the ground in China and competition from Chinese firms in core German industries.

I'd like to conclude with a few observations about transatlantic cooperation on China.

First, I believe we have seen a great deal of convergence between the US and Europe over the past two years on the language that is being used to define the challenges posed by China. In recent months, we've seen senior officials on both sides of the Atlantic embrace the term de-risking. And we've seen officials distance themselves from the idea of a full-blown economic decoupling from China.

Second, this alignment is more than just rhetorical. There is a growing transatlantic consensus on the need to reduce dependencies on China, diversify to other markets, and improve the resilience of supply chains.

Third, the US and EU have created a series of structured dialogues on China-related challenges in recent years. The US-EU Trade and Technology Council held its fourth ministerial meeting in Sweden last week. China also features increasingly in discussions within NATO and the G7.

Fourth, as I mentioned earlier, the war in Ukraine has pushed the US and Europe closer together and focused minds in Europe on the risks of a conflict in the Taiwan Strait.

That said, it is wrong to expect perfect alignment between the US and Europe on China. The US is an incumbent superpower. It plays a vital security role in the Indo-Pacific. And it is not a collection of countries with different interests like the EU. As a result, it sees China through a different prism than Europe does. And its response reflects this.

There is no appetite in European capitals for containing or isolating China, and there are concerns in some capitals about what is perceived as an overly confrontational approach from some politicians in Washington, particularly on the issue of Taiwan.

There is a consensus in Europe that despite the growing strains – but also because of these strains – one must continue to engage robustly with Beijing. As a result, we have seen a flurry of visits by European leaders since China ended its strict zero-COVID policies at the end of last year.

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 US or in a country like Japan. The threat perception is evolving in Europe, but more gradually. As we've seen on Ukraine, however, Europe is capable of major shifts in policy in times of crisis.

I am convinced that building transatlantic convergence on China, and limiting the risks of divergence, depends on robust engagement between the US and EU on the trade, technology and security issues that are at the heart of the challenges presented by Beijing's policies.

This will include building a positive transatlantic narrative, including on trade and investment, that is not only about China. It will require that the US look beyond the daily noise on China policy that is coming from 27 EU member states, remembering that Europe is not a monolith. And it will require that the administration and members of Congress are active, persistent, patient and when necessary forceful in making their policy arguments to European counterparts behind closed doors.

We are on a similar trajectory on China that has been driven by policy choices in Beijing. If Europe has a strong partner in Washington, I am convinced that Washington will have a strong partner in Europe.

Senate Foreign Relations Committee
Subcommittee on Europe and Regional Security Cooperation
Hearing

“Aligning transatlantic approaches on China”

7 June 2023

Written Testimony

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Dear Chairwoman Shaheen, Ranking Member Ricketts, and distinguished members of the subcommittee, thank you for the opportunity to appear before you today. It is an honor and privilege to address you.

I would like to make four points:

1. Europeans do not speak with one voice when it comes to China policy, but that does not necessarily translate into disunity in action.
2. China’s support for the Russian invasion in Ukraine constitutes a turning point in Europe-China relations.
3. The Chinese leadership sees Europe as a battleground for competition with the United States, but the European public does not perceive it that way – yet.
4. The EU’s China policy objectives are converging with those of the United States, while full alignment in policy and rhetoric remains unlikely. De-risking is a useful framework for a transatlantic approach, but it needs to move beyond the slogan.

Let me elaborate on each of them briefly.

Attention is up, unity holds

The overall level of attention regarding China as a challenge to European interests has grown remarkably over the last five years. Precisely because of the heightened importance that the relationship with China now plays for EU governments the messaging is more complex, with a stronger focus on the domestic audience.

While the daily ups and downs of the media reporting on European positions can leave observers confused, when stepping back European positions are actually relatively united and on a linear trajectory of significant hardening and growing skepticism about the future of the relationship. The recent visit by French president Macron and the subsequent comments in the media have not changed this broader trend.

The packages and policies agreed upon with a clear eye towards China (although formally “country-agnostic”) are quite impressive: the inbound investment screening mechanism, the anti-coercion tool, the foreign subsidies regulation, the 5G toolbox, new due diligence

directives, the Critical Raw Materials Act, outbound investment screening plans, 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 enhanced the EU's ability to respond to the changing geopolitical and geo-economic environment the Union and the member states are facing.

The changes are driven by hard economic and political realities, not by ideology or moral considerations. The EU's trade deficit with China is growing. From 2020 to 2022 alone it has more than doubled.¹ Germany holds the largest share of trade with China among EU countries and the same trajectory applies: 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, particularly the automotive sector, are slowing. German exports to China are down in relative terms and have only grown marginally in absolute terms over the last year. In 2022, China was only Germany's fourth largest export market, significantly behind the United States, France, and the Netherlands.

This is changing the narrative. Particularly for small and medium size European enterprises, the Chinese market is moving from being the place to be to being risky business.

Ukraine is a pivotal moment – also for China policy

For policy makers in Europe, the issue of highest strategic salience remains the Russian invasion of Ukraine, but 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 strategic interests closer to home.

It has ignited a debate about the security situation in the Taiwan Strait. Media reporting regarding 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 the potential fallout has increased markedly across Europe and particularly in Brussels.

Additionally, there is a specific regional impact of China's 'no limits' bond with Moscow: In Central and Eastern Europe China's failure to condemn the Russian invasion has led to another re-evaluation of the relationship with China. While the cooling of the relations over the past few years in what once was the 17+1 format (and is now down to 14+1, slowly drifting into irrelevance) was mainly due to China's assertive policies at home, the pandemic response, and disappointed business interests, the shift that is observable among many of the political leaders in the region now is likely to be more significant and lasting. It cuts to the heart of their own strategic priorities in terms of safeguarding sovereignty and territorial integrity and is fueled by a deep-rooted fear of Russian intentions.

While Chinese support to Moscow has highlighted the problem of single points of failure regarding overdependence on individual goods and products from China as well as overall supply chain risks, this does not translate into a desire for full-scale decoupling in Europe.

¹ In 2020 the trade deficit of the EU vis-à-vis China amounted to 182.3 billion Euro compared to 396 billion billion Euro in 2022, see: https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/china_en.

On the contrary, the costs that the hard break in the relations with Russia has incurred on European economies are a huge warning sign to many. The longer the war continues and the deeper the overall challenges to the global economy become, the harder it will be to maintain European unity as those EU countries that are more dependent on China, such as Germany, may be inclined to slow the de-risking process in favor of short-term economic relief.

Beijing's Charm Offensive falls flat – so far

The Chinese leadership continues to see an advantage in trying to undercut alignment, distract EU countries from China's engagement with Moscow, and obstruct transatlantic unity and has thus currently put a particular emphasis on its outreach to EU countries.

So far, however, Beijing's attempt to improve ties has not swayed most European leaders who see no new offers by the Chinese leadership on the table and are unimpressed by Special Envoy of the Chinese Government for Eurasian Affairs Li Hui's latest visit, the cold and low-level reception by the Polish Foreign Ministry being a case in point.²

The visits in Kiev, Warsaw, Berlin, Paris, and Brussels of the special envoy and a flurry of additional diplomatic activity including the upcoming government consultations with the German cabinet on 20 June 2023 and Chinese Premier Li Qiang's planned presence at Macron's flagship 'Summit for a New Global Financial Pact' are an indicator that Beijing is focusing on select member states it regards as particularly relevant.

There is reason to be concerned that some of these tactics can be successful as European public perceptions of the relationship with China in many member states are not as clear as the existing unity in broadly rallying behind the toughening of the EU line may indicate.

With regard to a potential Taiwan contingency, for example, the latest poll that my colleagues at the European Council on Foreign Relations have conducted in 11 EU member states³ concludes that a majority of European respondents (62% on average) polled would be in favor of a neutral stance rather than supporting the United States, which only 23% would on average be advocating for.

It is on European and US policymakers to jointly convey the impossibility of neutrality in such a scenario and devise a clear strategy for advocating 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.

Because once the direct connection to the reality of European citizens becomes clearer the numbers change: a staggering 41% of respondents (on average across member states) would thus be in favor of sanctions against China if it were to deliver ammunition or weapons to Russia, even if this meant "serious economic harm to Western economies".

² For the readout of the Polish Foreign Ministry, please see: <https://www.gov.pl/web/diplomacy/deputy-minister-wojciech-gerwel-met-the-special-envoy-of-the-chinese-government-for-eurasian-affairs>.

³ The representative poll is part of ECFR's 'Unlock Europe's Majority' project. Polling was conducted in April 2023 in Austria, Bulgaria, Denmark, France, Germany, Hungary, Italy, the Netherlands, Poland, Spain, and Sweden. See: <https://ecfr.eu/publication/keeping-america-close-russia-down-and-china-far-away-how-europeans-navigate-a-competitive-world/>.

The picture is more nuanced when looking at the individual country polling. 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 an exceptionally high number of undecided respondents (20% to almost 40%) to this question, which indicates 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 even 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.

Transatlantic convergence is real, but de-risk and diversify needs to move beyond the slogan

This brings me to my fourth and final point. Transatlantic convergence on the analysis of the challenges posed by China is real among policy makers, the discussions in the G7, the EU-US Trade and Technology Council and the various bilateral exchanges on the issue, the close coordination ahead of meetings with Chinese counterparts and regarding measures to be taken is a clear indicator of that.

‘De-risk and diversify’ seems to be terminology around which transatlantic partners can rally.

But discomfort in European capitals regarding full alignment with the United States remains high, and public opinion and domestic politics is important on both sides of the Atlantic.

Therefore, the exact contours of a ‘de-risk and diversify’ agenda need to become real very quickly in Europe with a clear roadmap for bringing the public on board for this overhaul of the way the global economy and the multilateral framework has been functioning. It also needs to move beyond the rhetoric of tools and instruments, insinuating that mere little tweaks to the existing order will suffice to safeguard European security and prosperity in an age of system competition.

A de-risk and diversify slogan with no concrete policies attached could otherwise quickly become a banner to hide behind for continued complacency, reactivity, and inaction in tackling the challenges head-on.

**Senate Foreign Relations Committee
Subcommittee on Europe and Regional Security Cooperation**

**Hearing
“Aligning transatlantic approaches on China”
June 7th 2023**

Written Testimony

**Andrew Small, Senior Transatlantic Fellow,
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Chairperson Shaheen, Ranking Member Ricketts, and distinguished members of the subcommittee, it is an honor to have the opportunity to testify before you today.

Over the last few years, Europe and the United States have engaged in the most significant overhaul of their policies towards the People’s Republic of China (PRC) since the opening of diplomatic relations. While the United States has moved further and faster in this process than Europe, the nature of the two sides’ economic, political and strategic concerns about the PRC, and the analysis of how best to respond, has been highly convergent.

This is reflected in the quality of transatlantic exchanges on China. Where it was once contentious even to address China-related concerns openly between Europe and the United States, collective efforts to do so are now embedded across all dimensions of the transatlantic relationship, from summits to working-level coordination, NATO to the EU-US Trade and Technology Council (TTC). The urgency gap that existed between the two sides is starting to close. The Russian invasion of Ukraine, and the PRC’s decision to extend significant political and economic backing to Moscow, has had a catalytic effect on European thinking. While Beijing has so far held back from providing lethal aid, the forms of support it already provides have positioned China as one of the chief enablers of the war. European leaders are now far clearer that while areas of cooperation with the PRC still exist, and effective political channels with Beijing need to be preserved, competition and rivalry are now the defining features of the relationship.

The Russian invasion also acted as an acute warning of the risks of excessive dependencies on powerful authoritarian states, and has forced European leaders to start taking the prospects of a conflict in Asia - particularly a cross-Strait contingency - more seriously. Coming on top of the supply chain vulnerabilities exposed during the COVID-19 pandemic, and the worsening climate for European business in China, it has transformed the notion of “de-risking” the economic relationship from a radical position in the European debate to a matter of political common sense.

While there are still differences over how expansively to define the concept, some of

the basic principles are generally agreed: strengthened technology controls in fields with potential military applications; diversification away from areas of near-exclusive reliance on China; more robust means to address outright economic coercion; and tight coordination with like-minded partners to put these measures into effect. European capitals are now converging on a new set of policy objectives with China for the first time since 2019, when the EU's framework of treating China as a "partner, competitor and systemic rival" was first laid out. European Commission President Von der Leyen's March 2023 speech on how Europe should deal with a China that is "more repressive at home and more assertive abroad" was an indication of the direction of flow. EU member states have again given the Commission space to be bolder and clearer than some of them are willing to be themselves.

China's pushback

The PRC views these developments with concern. Beijing aims to restrict and complicate European involvement in a common front with the United States; maintain a high degree of European openness for Chinese commercial and technological access; and limit any European moves on issues of high sensitivity, especially human rights, Xinjiang, Hong Kong, and Taiwan. The PRC has long understood Europe's importance in a geo-strategic landscape where competition cuts across the economic, technological, information, and ideological domains rather than hard military power alone. Yet Europe's salience to Chinese interests is now even greater in a context where US restrictions on its means of acquiring technologies, tools, and know-how are tightening. In addition to the barrage of criticism of the United States to which European officials and leaders are now routinely subjected by their Chinese counterparts, there is a forensic focus on ensuring that Europe does not close down interactions with China in areas that will affect the development of its advanced capabilities. As a result, Europe is the subject of more intense diplomatic outreach from China than it has experienced in many years.

At the same time, Beijing has essentially decided to accept some level of collateral damage to its standing in Europe as the price for deepening and elevating its ties with Moscow at a time of war. In a previous phase of Chinese foreign policy, Xi would neither have agreed to the "no limits" joint statement with Putin in the crucial weeks before the Russian invasion nor embarked on a full-scale state visit to Moscow at such a contentious juncture a year later. But in the wider struggle that the PRC understands itself to be engaged in with the United States, Xi sees the partnership with Russia - even a weakened Russia - offering greater strategic benefits than any other relationship.

By contrast, Beijing is realistic about where it sees Europe landing. The Chinese Communist Party's internal documents have long referenced "western hegemony", "western values", and "western hostile forces" as the focus of its ideological animus. Chinese assessments have also long seen European strategic decision-making as necessarily conditioned by its alliance with the United States, and view Russia's

invasion of Ukraine as a factor considerably tightening that alliance, a dynamic that will outlast the war. Xi's public remarks at the March 2023 "Two Sessions" notably spoke of "western countries - led by the US", that have "implemented all-round containment, encirclement and suppression against us". The PRC is steeling itself more openly for a broader contest with the West, not the United States alone.

Nonetheless, the PRC certainly wants to limit the extent of the damage to its relationships in Europe. This is one of the principal reasons giving Beijing pause in responding to Moscow's requests for lethal aid, and its willingness at least to go through the diplomatic motions of a peace initiative for Ukraine. Europe's leaders have delivered a consistent message to Beijing in recent months that the provision of systemic military support to Russia would amount to a real rupture in the Sino-European relationship. The Chinese government has taken those warnings seriously.

Ukraine

European messaging has been less consistent when it comes to China's diplomatic role on Ukraine. Some European policymakers see reason to try to incentivize a more constructive Chinese approach; some see value in pushing Beijing on specific aspects of its twelve-point position paper; some have attributed excessive significance to boiler-plate Chinese statements on nuclear weapons; and others have been wholly skeptical about Beijing playing an even marginally helpful role.

Xi's Moscow trip and the recent European visit from China's special representative for Eurasian affairs, Li Hui, certainly poured cold water on some of the more delusional hopes. The center of gravity at present is for Europeans to simulate belief in China's simulated efforts and at least give themselves the opportunity to call Beijing's bluff if nothing results. Europe is also looking to exert pressure on Chinese sanctions-busting, and considering measures to go after a list of Chinese entities engaged in dual-use transfers. But there is undoubtedly a constituency in Europe that sees the risk of an even darker trajectory for Xi's handling of the war - which could see significant military supplies to Russia - as good reason to tread carefully in dealings with the PRC.

Taiwan

Where the Sino-Russian relationship and the de-risking question are at the top of Europe's China debates, the Taiwan question occupies a more delicate and complicated role. There is now clearer awareness of the risks and the stakes for Europe, with the economic shock alone of any cross-Strait conflict dwarfing that of Russia's invasion. The breadth of the sanctions imposed on Moscow has also turned Europe into a part-player in Taiwan-related deterrence efforts that it was not eighteen months ago. China is well aware that the sanctions-coalition is one that could be replicated for Taiwan contingencies, and saw Europe going far further with Russia than it had anticipated, with Chinese officials scrambling - for instance - to figure out the implications of the

central banking asset freeze.

Yet while there is now European willingness to warn China about the need for stability; to make clear that Europe also has a stake in cross-Strait security; and to find creative ways to expand relations with Taiwan - consistent with a One China policy - there is still caution about detailed transatlantic contingency planning for any sanctions measures. This is not just out of neuralgic anxiety about antagonizing Beijing: there is also a concern among European policymakers that any preemptively agreed lowest-common-denominator measures may do more to underwhelm than deter. For now, the PRC has to take into account Europe's demonstrated capacity to surprise on the upside with sanctions. And Beijing is well aware that while Europeans may be cautious about advance signaling, and may not be willing to act decisively for the sake of Taiwan alone, the US frontline position in any conflict scenario will ensure that Europe feels obliged to do so regardless.

The transatlantic action agenda - progress and prospects

As the recent G7 summit in Hiroshima highlighted, United States and Europe, and their wider network of partners and allies in the Indo-Pacific, are now more closely aligned in substance. Where prior summits still saw differentiating language on China from European leaders, reflecting their concerns about "bloc politics" and "confrontation", this looked closest to a real consensus rather than a paper one. The issues at stake have high stakes for the future international security order and major economic interests at home, and will be subjected to fierce intra-European and transatlantic debate. But depicting this as "division" obviates the fact that agreements on consequential areas of policy continue to be reached nonetheless. It is not an analytical mistake that Beijing tends to make.

For now, the fastest-moving areas of cooperation have been on the defensive side. Europe's progress on agreeing an economic security strategy offers the prospect that it will move out of reactive mode on issues ranging from export controls to outbound investment screening. But even if the United States remains the pace-setter, there is now a suite of different areas in which the two sides are in synch, and can be expected to line up their approaches in the coming years. Despite this, it will remain important for the United States to be vigilant across areas of security where gaps and deficiencies are already appearing, such as the lagging of certain European countries on rollout of secure 5G networks, and the expansive openings for Chinese actors in other areas of Europe's digital infrastructure.

There is also much further to go on building mutual capacities among the allies. There are areas where the TTC has unquestionably made helpful progress, from global standard setting to information sharing on subsidies. But on some of the most important parts of the respective domestic economic agendas, such as green industrial policy or data flows, we are still mostly dealing with transatlantic deconfliction rather

than trying to build collective scale, and typically working to make advances on individual silos rather than ambitious joint packages to bolster allied competitiveness.

The offer to the rest of the world needs strengthening too. There is no effective diversification strategy from China that fails to lay out a compelling picture to partners across the developing world. While there have been areas of tentative progress under the auspices of the Partnership for Global Infrastructure and Investment, and initiatives with potential - such as the Critical Raw Materials Club - there is still a sense that the political momentum behind them has lagged behind the scale of the required task. With the Belt and Road Initiative facing the most difficult phase since its inception, as China fails to make adequate progress on addressing the major need for debt restructuring among distressed lenders, the opportunity for Europe and the United States is clear. But there are still fears across much of the developing world that the West is in “pulling up the ladder” mode rather than seeing the diversification drive translating into new opportunities for them in a less China-centric model of globalization.

Conclusion

The United States and Europe have reached a far deeper level of coordination on China than looked plausible a few years earlier. Russia’s invasion of Ukraine might have been expected to consume the two sides’ political focus; it has instead led to an even greater awareness of how closely the Atlantic and Indo-Pacific theaters are now interconnected. The coalition that the United States needs to build to address the shared challenges posed by China spans multiple domains and geographies. Europe will remain a vital part of it in the years to come.