A 'TRANSATLANTIC G2' AGAINST CHINESE TECHNOLOGY

by *Robert D. Atkinson*

Alone, America cannot stem China's rise in advanced industries. A new pact with Europe is needed to prevent the technological dominance of the People's Republic. Pioneering the green transition won't be enough.

1. It has been a century since the United States economy surpassed that of France, Germany, and the U.K. combined, an achievement made possible by European immigration and mass production factories. Today, China's economy exceeds that of the U.S. when accounting for purchasing power parity (PPP) and is expected to exceed it even in USD-denominated terms by 2030.[1] Notably, China already leads in advanced industry production; its output across 10 industries in 2020 was 17 percent higher than that of the U.S. and 25 percent higher than that of the E.U.[2]

The horse is already out of the barn when it comes to China overtaking Europe and the U.S. on both the economic and technological fronts. The key historical difference here is that, when the US overtook Europe, the two were not adversaries. Today, China is undeniably an adversary of the Western powers, with Xi Jinping highlighting the need for China to "win the battle" for core technologies.[3] In contrast, too many US and E.U. officials still cling to the fiction that it's possible to negotiate with China to achieve fair competition and even cooperation.

While neither the U.S. nor the E.U. can hope to change China or outpace its growth in advanced industry production, they can and should avoid a loss in this battle when it comes to both advanced industries (e.g., aerospace, high-speed rail, biopharmaceuticals, semiconductors, machinery, software) and emerging ones (e.g., AI, quantum computing, synthetic biology). Collectively, these industries represent a principal source of geo-economic power, meaning that Chinese victory

1. R. Rajah, A. Leng, "Revising down the rise of China," Lowy Institute, 03/14/2022.
2. "China Is Dominating Advanced Industries as US, G7, and OECD Economies Founder, ITIF Finds in New Industrial Study," Information Technology and Innovation Foundation, 12/13/2023.
3. J. Horwitz, "Xi's call to win tech race points to new wave of Chinese state-led spending," *Reuters*, 10/17/2022.

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would turn the transatlantic partners (i.e., the U.S., U.K., and European nations) into techno-economic vassal states dependent on China for key inputs. The People's Republic has already won in steel, shipbuilding, and solar panels, and it is way ahead when it comes to high-speed rail, telecom equipment, and EVs.

Not losing this battle is not a matter of determining which policies and programs to adopt. There have been countless reports from think tanks and other institutions laying out such an agenda. [4] Policymakers could easily craft an actionable path forward by inviting experts to a two- or three-day brainstorming retreat. The real problem is that policymakers on both sides of the Atlantic do not take the threat of China seriously enough to act on it.

2. Given this current dynamic, the most important task for the transatlantic policy community is to recognize the true nature of the threat and adopt a new conceptual framework. As Albert Einstein once stated, "We shall require a substantially new manner of thinking if mankind is to survive." Today, for the transatlantic community to survive, elites must adopt a new manner of thinking, the two most important points of which are as follows: 1) Recognize that the U.S. and the E.U. have far more in common than not and that they are collectively in a great-power techno-economic competition with China that is more akin to a state of war than to a football match guided by rules and norms. 2) Understand that not losing this techno-economic war is the most important modern non-military task. The focus must be on *not losing* rather than winning, as it's simply unlikely for the transatlantic community to be able to gain significant global market share in these key industries over China. However, it can and should avoid letting its key sectors be slowly decimated by Chinese predatory practices (e.g., intellectual property theft, massive subsidies, closed Chinese markets).

The United States, especially the US Congress, has a relatively strong understanding of the first point, in part because the U.S. has shouldered the global defense of freedom since WWII. Given this longstanding dynamic, it's easy for American policymakers to grasp the true nature of their country's adversaries. Many E.U. policymakers naively cling to the belief that China is a "normal" nation engaging in economic competitiveness just as democratic nations do and that existing rules and institutions (e.g., the World Trade Organization) can effectively address economic conflicts involving it.

Thankfully, as the reality of Chinese innovation mercantilism becomes clearer, E.U. officials appear to be shedding some of their blinders and utopian globalist beliefs. However, E.U. President Ursula von der Leyen's assertion that "Global integration and open economies have been a force for good for our businesses, our competitiveness, and our European economy. And that will not change in the future," [5] it's clear that the E.U. has yet to catch up to reality. Is it really too much

4. To learn more about this, please see the "Hamilton center for industrial strategy."
5. "An E.U. approach to strengthening economic security," European Commission press release, 06/20/2023.

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to ask for E.U. policymakers to not lag a half-decade behind the U.S. in understanding the true nature of the challenge that China represents?

The U.S. is also ahead on the second point, though not by much. While "Trump" Republicans and many centrist Democrats understand the importance of not losing the techno-economic war to China, many traditional Republicans continue to prioritize military superiority over China and the maintenance of "freedom" and small government at home. Industrial policy continues to be anathema to them. For most Democrats, including those in the Biden administration, competing with China takes a backseat to what they see as the two most important challenges: climate change and racial equity, with the latter requiring significant income redistribution and restrictions on corporate activity. Indeed, during President Biden's 2020 presidential campaign, he made it abundantly clear that he rejected the notion that China represented a serious economic threat to the United States: "China is going to eat our lunch? Come on, man… I mean, you know, they're not bad folks, folks. But guess what? They're not competition for us." [6] This sentiment appears to still be held by his administration, as it has done little thus far to confront China's innovation mercantilism beyond export controls on semiconductors, which it justifies along military terms. [7] If Biden continues to hold the view that China does not represent a competitive challenge to the U.S., the door is open for hundreds of billions of dollars in domestic spending: building mass transit, insulating the houses of low-income Americans, subsidizing costly clean energy, eliminating college debt, and expanding health care. [8] Acknowledging the true nature of the threat posed by China would require far more techno-economic "guns" and far less domestic policy "butter." Unfortunately, the dominant views are even worse in the E.U., where policymakers have a near-exclusive focus on clean energy. Winning the solar panel race will not cut it. And when it comes to prevail in advanced industries, the E.U. seems to think that "winning" means designing the most restrictive technology regulations while punishing US technology companies.

Sadly, it does not seem that this dynamic will change any time soon. Both E.U. and US officials tell themselves that they can have their green cake and eat it too, that by leading the clean energy transition they can outcompete China — but this is not the case. There are far too many sectors critical to national power that will not be supported by a green industrial policy, including aerospace, semiconductors, advanced computing, and biopharmaceuticals. And in the United States, the libertarian right and the "equalitarian" left show no signs of retreat; the former wants more military spending and less spending on everything else (including competition with China), while the latter wants to use regulation and competition policy to tear down large corporations and taxation and spending to advance social policy goals rather than competitiveness.

6. A. Edelman, "Biden's comments downplaying China threat to U.S. fire up pols on both sides," *NBC News*, 05/02/2019.
7. J. Boak, "The Commerce Department updates its policies to stop China from getting advanced computer chips," *AP*, 10/17/2023.
8. "The Biden-Harris Administration Immediate Priorities," whitehouse.gov.

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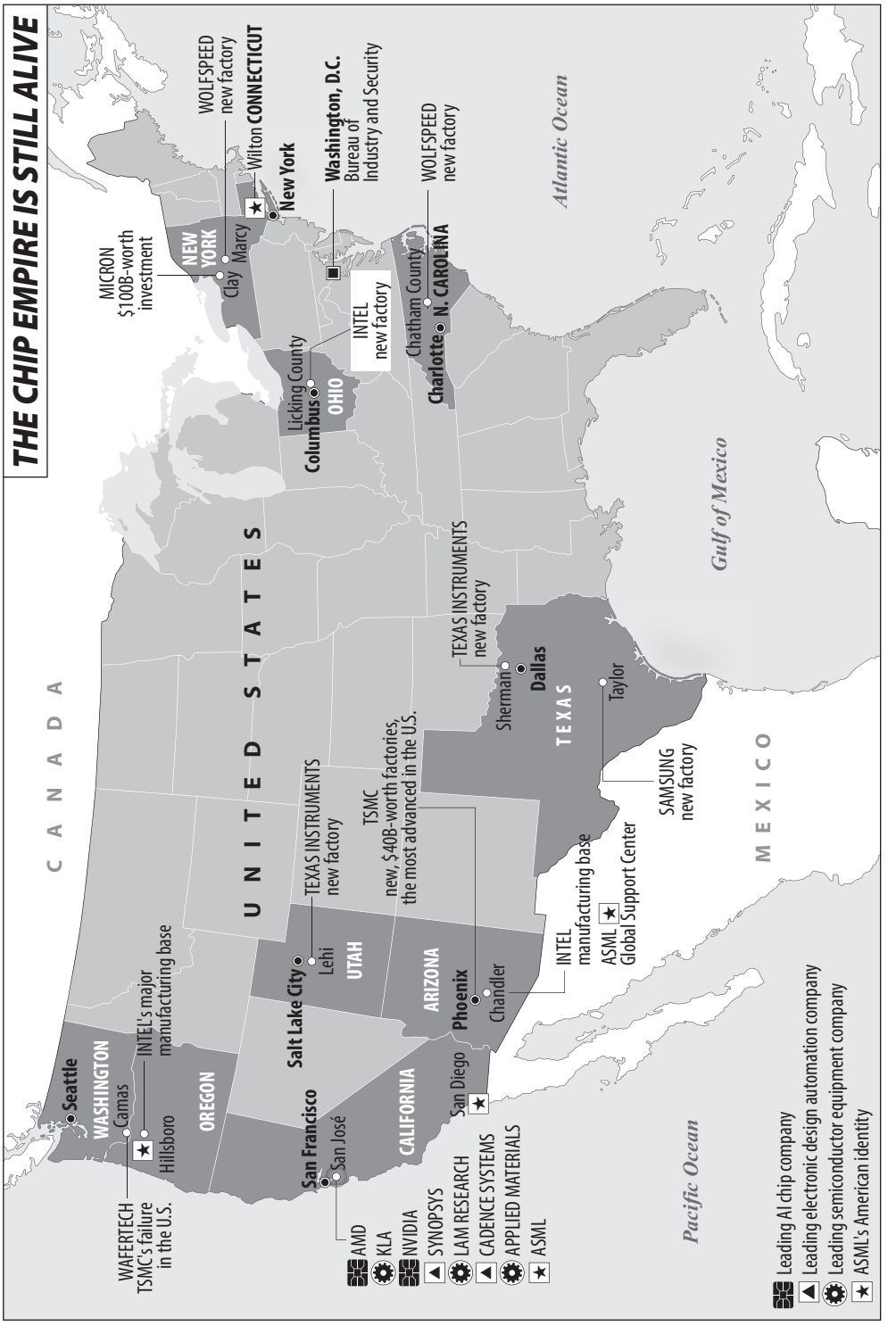

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3. Nonetheless, let us suppose that the ideal scenario plays out and the conceptual frameworks of the U.S. and E.U. change, enabling real policy innovation. In the U.S., this would mean the restructuring and reinvigoration of virtually all federal government programs and regulations that affect the economy around the goal of not losing to China. Of course, this is easier said than done. The old "DNA" of federal agencies is deeply entrenched, and powerful special interests resist real change. Still, one can hope. Let me provide two examples of how change may occur. First, the US science system. The current system dates back to the end of WWII, when the academic science community convinced Washington that personal investigator-directed scientific research focused on basic science was the key. Even today, policymakers are told that any changes to this dynamic will have dire consequences for not only the conduct of science but also US technological leadership.

But this 20th-century system — like so many other dated US systems is no longer purpose — fit for a world in which China is the primary competitor. In the old model, researchers determined the research areas to be pursued. In an appropriate new model, the state would prioritize key areas in which China is a threat. In the old model, the federal government provided the lion's share of funding. In the new model, industry funding, incentivized by the federal government, would play a key role. In the old world, publications were the key goal. In the new world, transferring knowledge to the domestic private sector would be the key goal. In the old world, science was seen as a global effort, meaning that cooperation with Chinese scientists and university students represented an unalloyed good. In the new world, scientific cooperation with China would be rightly seen as fraught with risks. To be sure, Congress is aware of some of these challenges, but its unwillingness to see China as an existential threat means that efforts in pursuit of change have been incremental at best. A case in point is the 2022 CHIPS and Science Act. The "Science" part of this passed law created an initiative to fund research across ten key areas; however, political pressures and limitations resulted in the program being located within the National Science Foundation (NSF) rather than an agency more focused on commercial development. Additionally, the law broadened the original industry areas to include domestic social challenges, such as clean water. With regard to funding, the original legislative funding proposals were cut in half, while funding for the traditional NSF science programs doubled. Finally, as the NSF implements this program, it's likely that its "working with industry" component will be paid lip service at most.

If Congress truly took the China challenge seriously, it would have done something quite different and far bolder. Congress would have created a National Advanced Industry and Technology Agency dedicated to working closely with domestic industry.[9] It would have appropriated far more money and required that

9. R.D. Atkinson, "Why the United States Needs a National Advanced Industry and Technology Agency," Information Technology and Innovation Foundation, 06/17/2021.

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most of it be spent on university-industry research partnerships to support industries and technologies threatened by China.

We see the same type of incrementalism when it comes to the US Export-Import Bank (EXIM), an agency established in the 1930s to provide exporters with patient capital. Congress realized that China was using its massively funded export finance and development banks to bribe its way to capturing contracts and influence around the world through its industries. In response, Congress created the China and Transformational Exports Program within EXIM, which required EXIM to invest 25 percent of its lending authority in deals that compete with China across ten designated technologies. This was certainly a useful step.

Still, a Congress that truly understood the threat posed by China would have picked technologies critical to the U.S.'s future (of which water treatment technology is not one), provided significantly more lending authority to EXIM, and allowed for a loss rate of at least 10 percent (instead of mandating that it earn at least a 2 percent rate of return). It also would have changed the core mission of EXIM from job creation to winning the global battle for advanced industries with China. This would entail lowering the domestic content requirements to enable EXIM to fund a greater number of projects that contain less American labor but still challenge Chinese expansion. All in all, US efforts have been incremental. If China were to be truly seen as the existential threat to the West that it is, we'd see a new approach to not just science and export financing but to many areas of economic policy. We would see a trade policy that prioritizes market opening for advanced industries (rather than supporting all industries, including agriculture and financial services, equally) as well as revised trade protection tools to limit the market access of unfairly supported Chinese companies. We would see a much more generous R&D tax credit as well as a new investment tax credit. We would see a regulatory system with two tracks: one for domestic-serving industries and another more flexible one for sectors competing internationally, especially with China. Congress would transform the Small Business Administration into the New (high-growth) Business Administration. We would see a workforce development system focused more on generating skills necessary in advanced industries and less on subsidizing English literature degrees.

4. The E.U. is no different in this regard. There is no broad-based commitment to out-competing China, even if many E.U. officials naively believe that its green strategy will do the trick. There is also a general lack of willingness to invest among E.U. policymakers. For example, the new German China strategy states: "We will strive to implement this Strategy at no additional cost to the overall federal budget."[10] Good luck with that! Because without a significant increase in financial support for German innovation and advanced industry companies, Berlin will lose. But even if

10. "Strategy on China of the Government of the Federal Republic of Germany," Foreign Ministry of the Federal Republic of Germany, 2023.

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the E.U. and the US develop a broad-based consensus on the real nature of the challenge represented by China, domestic action alone will not be enough. We need to join forces, and it must start with real transatlantic cooperation. Unfortunately, Europe perceives itself as competing against both the United States and China, believing that it requires strategic independence from both. It sounds good to Beijing's ears. Under the Obama administration, I co-chaired its U.S.-China Innovation Experts Group. At a lunch in Beijing with a high-level Chinese government official, I asked how the Chinese government would handle increased resistance to its unfair economic and trade policies. The official indicated that they were not worried about individual countries or even the G20. What really worried them was the potential of a G2 — a strong alliance between the E.U. and the U.S. It was the threat of such a G2 "ganging up' on China that kept him awake at night. Today, he must be sleeping very soundly given the significant trade tensions between the E.U. and the U.S. and the E.U.'s refusal to name the U.S. as a key ally or China as a key adversary. Listening to many E.U. officials, one could easily get the impression that the United States is a key technological adversary of the E.U.

5. The reality is that the United States cannot adequately prevent Chinese global technological dominance without the full and unstinting cooperation of the E.U. If China wins in Europe, Chinese companies will be too powerful for American companies to compete with, but the cooperation necessary to prevent this will not happen if policymakers fail to accept the two key realities discussed above.

While some in the E.U. seem to be moving toward a recognition of China as a country that is not "normal" in its trade and globalization efforts, the E.U. as a whole has a long way to go, especially given Germany's ongoing resistance to efforts aimed at getting tougher with China and certain officials' continued insistence that it is possible to reform the WTO in a way that stops China's mercantilism. They even believe that "China should play a part commensurate with its economic weight to help achieve this objective." [11] It boggles the mind knowing that some genuinely believe that China would allow changes to the WTO that would constrain its widespread manipulation of the global trading system.

We can also point here to the following statement from the European Commission: "To achieve a maximum benefit from the trade and investment relationship between the E.U. and China, solutions to long-lasting concerns will have to be found. Ensuring reciprocity, achieving a [level playing] field, and addressing asymmetries in the relationship is a matter of priority." [12]

This ship has sailed. The only reciprocity, level-playing fields, and addressed asymmetries possible are those on the transatlantic side; China will not roll back its mercantilism. E.U. officials appear to be living in a fantasy world in which China will start playing fair so long as they have enough meetings and "constructive

11. "E.U.-China Relations," European External Action Service, 04/01/2022.
12. R. Rajah, A. Leng, *op. cit.*

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dialogue." Germany even has this delusion cemented in its "Strategy on China," which states that "China is an essential partner as regards global challenges." [13] No, it is not. The Beijing's coverup made the COVID-19 pandemic worse. And there is no need to "partner" with China to tackle climate change. China will cut emissions when C.C.P. officials feel it is in their best interest to do so. Bribing them to do this simply lets Beijing win. At the end of the day, the E.U. must decide whose side it's on. The E.U. wants it both ways. It wants to be friendly with both China and the United States while avoiding any involvement in the "US trade war," which most in Europe wrongly see as a form of US protectionism. The reality is that the U.S. did not start this "trade war." China did in the 2000s — and this war is not being fought solely for the benefit of the United States. It's being fought on behalf of all allied nations. It's time that the E.U. stopped free-riding on US efforts (though doing so appears to be one of Europe's few comparative advantages). The E.U. must also significantly dial down trade tensions with the United States. This is not the place to litigate who is more at fault for the deterioration of trade relations, although I would argue that most of the blame lies on the eastern side of the Atlantic. When German Chancellor Olaf Scholz states that European sovereignty "means in essence that we grow more autonomous in all fields; that we assume greater responsibility for our own security," [14] he is playing directly into the hands of Beijing. [15] When E.U. Commissioner Thierry Bretton talks about the need for the E.U. to have digital sovereignty from the United States, he is playing directly into the hands of Beijing. The fact that some E.U. officials appear to believe that American officials could potentially cut off exports to the E.U. and that it therefore requires a strategic "derisking" from the U.S. truly boggles the mind. While efforts like the E.U.-U.S. Trade and Technology Council try to address some of the underlying trade irritants, it is — at best — a sideshow. Until the E.U. decides which path it wants to take, no such bilateral efforts can bear real fruit.

6. The E.U. has three choices. First, it can continue to engage economically with China and hope to maintain acceptable relations with the United States. The problem with this approach is that, as the German think tank MERICS has shown, the negative impacts of the Made in China 2025 plan are likely to be more damaging to the E.U. than to the U.S. [16] As each year goes by, the ability of E.U. companies to sell in China will further deteriorate, and the ability of China to sell in Europe will only grow. This dynamic is already being seen with electric vehicles. That the EV export surge came as a surprise to so many E.U. policymakers is truly amazing.

Second, the E.U. can continue down the path of strategic derisking and digital sovereignty, where it sees China and the United States as equal risks. This path

13. "Strategy on China of the Government of the Federal Republic of Germany," cit., 8.
14. "Speech by Commissioner Thierry Breton: Sovereignty, self-assurance and solidarity: Europe in today's geopolitics," European Commission, 09/05/2022.
15. "Transatlantic Tech and Security: A Conversation with E.U. Commissioner Thierry Breton," Center for Strategic and International Studies, 01/27/2023.
16. J. Wübbeke, M. Meissner, M.J. Zenglein, J. Ives, B. Conrad, "Made in China 2025," MERICS, 08/12/2016.

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would make joint efforts to limit China's techno-economic aggression difficult if not totally impossible, and it would result in tens of billions of euros being wasted to prop up industries for which the E.U. would be better off relying on the U.S. and other allies (and vice versa).

Third, it can heavily align itself with the United States, creating a "G2." This is the only course that would effectively counter China. This approach would entail the U.S. and the E.U. dialing back recent protectionist actions, including US steel tariffs (on which both the Trump and Biden administrations have been completely wrong) and E.U. "digital sovereignty" actions that discriminate against American firms. However, the two regions should go much further than this by pursuing a Transatlantic Trade and Investment Partnership that would eliminate all tariffs on products traded between the two sides and eliminate most if not all regulatory barriers to trade and investment. On top of this, both regions should establish much closer cooperation in science and technology, foreign development assistance, and commercial counterintelligence against China. Most importantly, the two regions should create a "demand alliance" focused on advanced technologies or inputs that would insulate markets from unfairly produced Chinese goods. This approach is based on reciprocity, as the PRC constantly manipulates its market as a tool of statecraft. [17] Joint policies to support this agenda would include tariffs that impose a price floor on Chinese product dumping — especially in key sectors like critical minerals — to enable market-based firms to compete as well as long-term import restrictions on companies that systematically benefit from unfair trade practices, such as closed Chinese markets and excessive subsidization. [18]

While that third approach would be the optimal outcome, its prospects are not great. Too many E.U. activists are willing to fall on their swords for trivial issues like chlorinated chicken and GMO crops. Will E.U. leaders have the courage to ignore these radical voices whose overarching mission is to overthrow market capitalism? Probably not — at least not before the threat from Chinese quantum computers becomes clearer than the threat from US chickens. Even without activists gluing themselves to paintings, close economic relations between the E.U. and the U.S. have always been stymied by the chip on rope's shoulder. Ever since Jean Jacques Servan-Schreiber, in his 1968 book *The American Challenge*, wrote that "The American challenge [US firms like IBM gaining market share and entering Europe] is not ruthless like so many Europe has known in her history, but it may be more dramatic, for it embraces everything," the E.U. has been in a defensive mode towards America. [19] We see this in Europe's decade-long campaign to achieve "digital sovereignty" as a remedy to "digital imperialism." President von der Leyen claimed that "it is not too late to achieve technological sovereignty" in various

17. "Understanding the Beijing Rules: Bethany Allen on how China weaponizes its economy and how the West can push back," *TheHub.news*, 08/10/2023.
18. R.D. Atkinson, L. Tobin, "The Missing Piece in America's Strategy for Techno-Economic Rivalry with China," *Lawfare*, 10/3/2023.
19. J.-J. Servan-Schreiber, *The American Challenge*, New York 1968, Atheneum, p. 277.

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areas, including AI, blockchain, and quantum computing. Commissioner for Internal Market and Services Thierry Breton claimed that E.U. efforts to do this, including limiting access by US firms "is not a protectionist concept, it is simply about having European technological alternatives in vital areas where we are currently dependent." [20] The E.U. claims its sovereignty, but in pursuing that goal it is more concerned with the U.S. than with the C.C.P. and it goes so far as to think it should break away from Washington and not Beijing [21]. Maybe there's a middle way forward. At one level, who cares if American farmers can sell chickens to Europe? Poultry is not strategic. The real question is whether the two regions can develop a far more integrated economy in advanced technology industries (e.g., semiconductors, drugs, automobiles, digital tools) through which they work together to support each other's advanced industry development while limiting China's market access and overall techno-economic advance. Only time will tell… but time is running short.

20. K. Propp, "Coronavirus spurs Europe's quest for digital sovereignty," Atlantic Council, 04/22/2022.
21. A. Satariano, M. Pronczuk, "Europe, Overrun by Foreign Tech Giants, Wants to Grow Its Own," *The New York Times*, 02/19/2020.

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