Welcome to the first issue of our literature review on the new systemic conflict with China this year. After U.S. President Biden took office on January 20, many around the world are wondering what lies ahead for U.S.-China relations. Meanwhile, after seven years of negotiations, the EU and China have concluded “in principle” the negotiations for a Comprehensive Agreement on Investment (CAI), which has sparked a fierce debate on both sides of the Atlantic. Thus, while 2021 is still in its infancy, China remains front and center on both the American and the European foreign policy agenda. This review covers both developments and how they may affect transatlantic cooperation towards China.

Another focus is on China’s economic strategy of “dual circulation” and its intensified efforts to promote its authoritarian model at home and abroad. In addition, I have compiled contributions on technological competition considered by many observers as the new epicenter of geopolitics. As usual, I have tried to map the ongoing debate and point out contributions I consider essential readings. Please feel invited to comment and complement my selection. I look forward to your feedback.

CONTACT

Dr. Peter Walkenhorst
In this Issue

1. U.S.-China Relations: What to Expect from the Biden Administration?

“How 2020 Shaped U.S.-China Relations”

Elizabeth C. Economy, Yanzhong Huang, Jerome A. Cohen, Adam Segal and Julian Gewirtz, Council on Foreign Relations, December 15, 2020

In short: As the Biden administration prepares to take over, what lies ahead for the world’s most important bilateral relationships?

U.S.-China relations sharply deteriorated in 2020, after three years of steadily declining under the Donald J. Trump administration. Beijing and Washington traded blame over the coronavirus pandemic, remained locked in a trade war, competed over 5G networks and other technologies, and clashed over rights abuses in Xinjiang and Hong Kong, among other issues. U.S. President-elect Joe Biden will have to grapple with all these challenges from day one in office. In this roundup, Council on Foreign Relations experts look back on significant moments over the past year that will have lasting implications for the relationship and offer their analysis on what to expect under Biden.

2020 Report to Congress

U.S.-China Economic and Security Review Commission, December 2020

In short: Immediate changes to U.S. China policy are unlikely, this bipartisan report suggests.

In 2000, the U.S. Congress established this bipartisan commission to monitor and report on the national security implications of the U.S.-China economic
relationship. The 2020 Annual Report to Congress provides an overview of the global contest for power and influence, highlighting China's view of strategic competition with the United States. It also discusses the state of U.S.-China economic and trade relations, vulnerabilities in China's financial system, Taiwan, Hong Kong, and security, political, and foreign affairs developments in 2020. The findings and key recommendations of this bipartisan commission suggest that the U.S. are not going to dramatically change its posture toward China under the new Biden administration, at least not immediately.

“Competition With China Could Be Short and Sharp. The Risk of War Is Greatest in the Next Decade”

Michael Beckley and Hal Brands, Foreign Affairs, December 17, 2020

In short: As U.S.-China relations enter a danger-zone, Washington must shore up defenses against pressing perils since the moment of maximum danger is just a few years away.

Much debate on America’s China policy focuses on the dangers China will pose as a peer competitor later this century. Yet the U.S. actually faces a more pressing and volatile threat: an already powerful but insecure China beset by slowing growth and intensifying hostility abroad, argue Michael Beckley, Associate Professor of Political Science at Tufts University and Hal Brands, Henry A. Kissinger Distinguished Professor of Global Affairs at the Johns Hopkins University School of Advanced International Studies, in this article. While the U.S. still needs a long-term strategy for protracted competition with China, it first needs a near-term strategy for navigating the danger zone. The most pressing dangers for such a danger-zone strategy are a Chinese conquest of Taiwan and a Chinese preeminence in 5G telecommunications networks.

“The Biden Transition and U.S. Competition with China and Russia: The Crisis-Driven Need to Change U.S. Strategy”

Anthony H. Cordesman, with the assistance of Grace Hwang, CSIS, January 6, 2021

In short: Why the U.S. need a new and fundamentally different policy toward China and Russia.

The U.S. needs to fundamentally reassess its approach to competing and cooperating with China and Russia. Its present path has tilted more and more towards a poorly structured approach to confrontation focused more on worst case wars than on the broader forms of military and civil competition the U.S.
needs to address. It has not given the proper priority to address America's strategic partnerships or to develop net assessments of the longer-term patterns in this competition. This is the main argument of this extensive report, written by Anthony H. Cordesman, Arleigh A. Burke Chair in Strategy at the Center for the Strategic and International Studies (CSIS).


Kurt M. Campbell and Rush Doshi, Foreign Affairs, January 12, 2021

In short: Restoring balance and legitimacy are key aspects of the future U.S. strategy for the Indo-Pacific region.

In this article, Kurt M. Campbell and Rush Doshi, two of Joe Biden's top appointees for Asia, outline key elements of a future U.S. strategy for the Indo-Pacific region. They argue that “regional orders work best when they maintain both balance and legitimacy” and that the U.S. should work to promote both in Asia. A strategy for the Indo-Pacific would benefit from incorporating three lessons from history: "the need for a balance of power; the need for an order that the region's states recognize as legitimate; and the need for an allied and partner coalition to address China's challenge to both." Since the combination of Chinese assertiveness and American ambivalence has left the region in flux, the U.S. will need to be flexible and innovative as it builds partnerships.

“Rather than form a grand coalition focused on every issue, the United States should pursue bespoke or ad hoc bodies focused on individual problems, such as the D-10 proposed by the United Kingdom (the G-7 democracies plus Australia, India, and South Korea). These coalitions will be most urgent for questions of trade, technology, supply chains, and standards [...] The purpose of these different coalitions – and this broader strategy – is to create balance in some cases, bolster consensus on important facets of the regional order in others, and send a message that there are risks to China's present course.”

2. Transatlantic Cooperation on China: Opportunities and Pitfalls

“Biden and What to Expect from an ‘Ally-centered’ China Policy”

Andrew Small, Transatlantic Take, The German Marshall Fund of the U.S., December 16, 2020
In short: A more ally-centered China strategy means that America's partners will get a say in the outcome. They should take the opportunity.

Following the Obama administration's “rebalance to Asia” and the Trump administration's focus on “great power competition,” China remains front and center on President-elect Biden's foreign policy agenda. But what will be different about the incoming administration's approach? In this policy brief GMF Senior Fellow Andrew Small explains that Biden will be inclined to a coordinated, multilateral strategy. He suggests that the administration's framing will be more focused on competition rather than Trump's style of confrontation that often failed to mobilize allies and partners behind a common stance. In addition, he predicts that a more ally-centered China strategy means that America’s allies will get a say in the outcome.

For them this is an opportunity: “to help craft the framework for a wider coalition-based approach to China that will result in a U.S. China policy they can live with, real collective leverage on shared priorities, and a chance for the liberal democracies to get on the front foot again.”

“China's Rise Can Unite NATO”

Henrik Larsen, Center for Security Studies at ETH Zürich. Policy Perspectives Vol. 8/13, December 2020

In short: China's rise gives NATO new strategic purpose after years of deadlock.

China's rise as an illiberal great power with a technological edge gives increased prominence to NATO's role as a protector of free societies, argues Henrik Larsen, Senior Researcher at the Center for Security Studies (CSS) at ETH Zürich, in this policy brief. A new transatlantic bargain is needed, in which Europe invests more in the continent’s own security in return for the U.S. engaging in a transatlantic dialogue about how best to counter China as a threat to resilience and liberal order. The incoming Biden administration offers an opportunity for a joint transatlantic approach to China, provided that Europe safeguards its critical infrastructure for continued intelligence sharing and joint military planning and also shoulders a bigger burden in containing Russia, as the U.S. shifts its focus to Asia.

“Global Strategy 2021: An Allied Strategy for China”

Matthew Kroenig and Jeffrey Cimmino, The Atlantic Council, December 2020
In short: Working together, likeminded partners can once again advance their interests and values, and the broader rules-based system, and fend off threat posed by China.

China is the foremost geopolitical threat to the rules-based international system since the end of the Cold War, and the return of great-power rivalry will likely shape the global order for decades to come. Likeminded allies and partners need to take deliberate and coordinated action to strengthen themselves and counter the threat China poses, even as they seek longer-term cooperation with Beijing, argue Matthew Kroenig and Jeffrey Cimmino of the Scowcroft Center for Strategy and Security as lead authors in this report.

For assessments of the potential impact of the Comprehensive Agreement on Investment (CAI) on transatlantic relations see the following section:

3. Trade and Investment: The Comprehensive Agreement on Investment (CAI)

“EU and China reach agreement in principle on investment”

European Commission, Press release, December 30, 2020

In short: After seven years of negotiations, the EU and China have concluded the negotiations for a comprehensive investment agreement.

On December 30, 2020, the EU and China have concluded “in principle” the negotiations for a Comprehensive Agreement on Investment (CAI). The Agreement will create a better balance in the EU-China trade relationship. The EU has traditionally been much more open than China to foreign investment. This is true as regards foreign investment in general. China now commits to open up to the EU in a number of key sectors. President of the European Commission, Ursula von der Leyen said: “Today’s agreement is an important landmark in our relationship with China and for our values-based trade agenda. It will provide unprecedented access to the Chinese market for European investors, enabling our businesses to grow and create jobs. It will also commit China to ambitious principles on sustainability, transparency and non-discrimination. The agreement will rebalance our economic relationship with China.”

The announcement of the deal followed a call between Chinese President Xi Jinping and European Commission President von der Leyen, European Council
President Charles Michel and German Chancellor Angela Merkel on behalf of the Presidency of the EU Council, as well as French President Emmanuel Macron.

*For more details see also "Key elements of the EU-China Comprehensive Agreement on Investment".

“Europe and China’s Year-End Breakthrough”

Jeffrey D. Sachs, Project Syndicate, December 31, 2020

**In short: Why the CAI may be a good deal.**

The conclusion of the CAI has sparked a fierce debate on both sides of the Atlantic. In this opinion piece, Jeffrey D. Sachs, Professor of Sustainable Development at the Columbia University in New York, points out why he considers the agreement a good deal: “The new EU-China investment agreement will benefit Europe, China, the world, and even the United States, despite the latter’s warnings against it. In general terms, the agreement signifies the intention of the EU and China to continue to deepen economic relations, by granting each party more assured access for investments in the other’s economy.” According to Sacks, European industry will gain better access to China’s enormous domestic market just as China embarks on a decade of green and digital economic restructuring, and at a time when Europe is striving to stay at the technological forefront in these areas.

“Europe’s disappointing investment deal with China. Why rush a deal that is so inherently complex?”

Alicia Garcia-Herrero, Nikkei Asia, January 1, 2021

**In short: Why the CAI may be a bad deal (Part 1: Economic arguments).**

Why rush a deal that amounts to so little? This question is asked by Alicia Garcia-Herrero, Asia-Pacific chief economist at Natixis and a senior research fellow at Brussels-based think tank Bruegel, in this commentary. The purpose of CAI is limited to foreign direct investment and contains no trade clauses. While some aspects of the deal are about more than market access, including sustainability, climate change, international conventions and labor, those provisions remain general and contains limited enforcement possibilities. Moreover, there will be no real reciprocity. China's market remains much more closed to EU companies than the EU market is for Chinese companies. And finally, China has already protected itself by rushing a National Security Law on
December 19, right before getting CAI approved, to fend off foreign investment whenever it harms China's national security. The question is whether the EU will now dare continue with its efforts to protect its market from unfair competition by legislating against foreign subsidies.

“Europe has handed China a strategic victory. This is the wrong time for the EU to agree an investment treaty with Beijing”

Gideon Rachman, The Financial Times, January 3, 2021

**In short:** *Why the CAI may be a bad deal (Part 2: Geopolitical arguments)*.

When Ursula von der Leyen, assumed office as the President of the European Commission, she said she wanted to lead a “geopolitical commission”. According to Gideon Rachman, chief foreign affairs columnist for the *Financial Times*, the recently concluded CAI is sending “a truly awful geopolitical message” since it has handed China a big strategic victory. The deal is also “a considerable kick in the teeth” for U.S. President-elect Joe Biden whose offer to work together on China has been ignored by the EU. Besides the Europeans are also ignoring the increasingly authoritarian and aggressive nature of Xi Jinping’s China, which has repeatedly demonstrated its willingness to use its economic power as a strategic weapon. “By deepening their economic reliance on China – without co-ordinating their policy with fellow democracies – European nations are increasing their vulnerability to pressure from Beijing. That is a remarkably shortsighted decision to make, for a ‘geopolitical commission’.”

“Watching China in Europe - January 2021”

Noah Barkin, German Marshall Fund Asia, January 4, 2021

**In short:** *The CAI will not derail transatlantic cooperation, but it does complicate the transatlantic discussion about China significantly.*

In this blog-post Noah Barkin, managing editor at the Rhodium Group and senior visiting fellow at the German Marshall Fund of the United States, discusses the impact of the CAI on transatlantic relations. For him the agreement is “a powerful geopolitical statement” that exposes the transatlantic divide in dealing with China. It shows that the EU, with Germany leading the way, still believes that economic and broader strategic interests can be neatly separated – an idea that is no longer accepted in Washington. The CAI will not derail transatlantic cooperation, but it does complicate the transatlantic discussion about China significantly. With Germany, France, and the European Commission firmly behind the agreement, Barkin finds it hard to
imagine it being unraveled in 2021. “But one thing is certain: China’s behavior over the course of the year will be seen through the prism of this agreement. If Beijing continues down its current path, opposition to the deal in the European Parliament is likely to harden. The debate over the CAI is not over. It may have just begun.” – This piece is an absolute must read!


"China's Radical New Vision of Globalization"

James Crabtree, Noema, December 10, 2020

In short: Xi Jinping’s vision of “dual circulation” is a darkly pessimistic economic strategy, fit for a new Cold War.

President Xi’s “dual circulation” strategy represents a radical new understanding of globalization and of China’s place within it, argues James Crabtree, associate professor at the Lee Kuan Yew School of Public Policy at the National University of Singapore, in this excellent piece. More than just a buzzword, dual circulation describes the deeply pessimistic worldview that has settled over Beijing. “While the world was distracted by the drama of the U.S. presidential election, Xi quietly unveiled an economic strategy fit for a new Cold War.” China expects the U.S. and its allies to act ever more aggressively to deny China the technology it needs. It now expects it will have to develop economically and technologically on its own. Many of dual circulation’s economic repercussions will be harmful. Gradual economic decoupling between China and the West will be more significant than the divisions of the original Cold War, given so little prior trade existed between the U.S. and the Soviet Union bloc. Moreover, there are still gloomier scenarios. Crabtree worryingly links the dual circulation strategy to Xi’s ambitions in Taiwan – This article is a must read!

“China’s Fateful Inward Turn: Beijing’s New Economic Strategy as Spelled Out by the Resolution of the CCP Central Committee’s 5th Plenum”

Minxin Pei, China Leadership Monitor, December 16, 2020

In short: China’s economic strategy of “dual circulation” is designed to sustain its strategic competition with the U.S.
At the 5th plenum of the 19th Central Committee of the Chinese Communist Party (CCP) at the end of October 2020, Chinese leaders unveiled a new strategy for sustaining economic development during the next fifteen years. China's new economic strategy makes it clear that Beijing will be shifting the focus of its economy inward and achieving scientific and technological self-sufficiency to improve its national security and sustain growth. Chinese leaders frame the rationale for this shift in terms of a response to radical and unfavorable changes in the external environment. They also will rely on a new ‘whole-of-nation’ system to mobilize resources to achieve their objectives. The highly publicized resolution of the 5th plenum and Xi Jinping’s speeches on China’s new economic development framework should be treated as signals of the CCP’s resolve that it is now prepared to become involved in sustained geopolitical competition with the U.S., writes Minxin Pei, editor of China Leadership Monitor, and Professor of Government at Claremont McKenna College.

“Exporting Xi Jinping thought. How China's Communist Party trains foreign politicians”

The Economist, December 12, 2020

In short: The International Department of the CCP seeks to promote authoritarian leadership by cultivating relationships with high-ranking and up-and-coming foreign politicians.

In 2017 Xi Jinping caused a stir in the West by suggesting that China's development model offered “a new option” for other countries, and that a “Chinese approach” could help solve humanity's problems. Though he later insisted that his country did not plan to export a “China model”, the country’s officials have been, in effect, doing just that. Many of those engaged in this effort work for a branch of the Communist Party called the International Department. One of its main activities is organizing training sessions for foreign political parties, especially those from developing countries. It does not say outright that authoritarianism is good. But its mission is clearly to promote the virtues of strong centralized leadership. China is not preaching communism. Its aim, rather, is to show that a country can become richer without being democratic. That message finds attentive ears among politicians who find the checks and balances of democracy irksome.

“China's Combative Nationalists See a World Turning Their Way”

Chris Buckley, New York Times, December 14, 2020
In short: China’s Communist Party is pushing the narrative that the pandemic has proved the superiority of its authoritarian model. The muscular message is finding fans at home.

China’s authoritarian system, proponents say, is not just different from the West’s democracies, it is also proving itself superior. It is a long-running theme, but China’s success against the pandemic has given it a sharp boost, NYT journalist Chris Buckley points out in this article. China stamped out the coronavirus, the messaging goes, with a resolve beyond the reach of flailing Western democracies. Beijing has rolled out homegrown vaccines to more than a million people, despite the safety concerns of scientists. China’s economy has revived, defying fears of a deep slump from the pandemic. Because of these successes, there is a widespread sense that the Western powers are in perhaps irreversible decline, and that the pandemic has confirmed China’s ascent.

"Commanding Ideas: Think Tanks as Platforms for Authoritarian Influence"

Nadège Rolland, National Endowment for Democracy, December 2020

In short: Why it is dangerous to engage with think tanks in authoritarian states, especially China.

This report describes the ways in which authoritarian countries seek to use think tanks as instruments of sharp power, focusing specifically on why and how authoritarian powers target foreign private organizations dedicated to policy-related research. Authored by Nadège Rolland, senior fellow for political and security affairs at the National Bureau of Asian Research and nonresident fellow at the Lowy Institute, the report is not just about think tanks in China, but they get a lot of attention. Xi Jinping himself had proposed establishing high-quality think tanks to serve the policies of the party-state, and he specifically demands that they help expand the regime’s international influence and contribute to the realization of its main strategic objectives. “Think tanks, like media, are seen as playing a major role in changing the way others, including democracies, speak and think about China, its regime, and its policies.” The report is part of the Sharp Power and Democratic Resilience Series.

Message Control: How a New For-Profit Industry Helps China’s Leaders ‘Manage Public Opinion’

Jessica Batke and Mareike Ohlberg, ChinaFile December 20, 2020

In short: In monitoring the online activities of its citizens, the Chinese Communist Party is increasingly relying on for-profit companies.
This report from ChinaFile shows how for-profit companies actively assist the Chinese Communist Party in monitoring the thoughts and feelings China's citizens express about their government. Chinese authorities want the ability to track, manipulate, or erase online speech. They rely increasingly on technology to enhance the efficacy and scope of censorship and monitoring long performed by government employees. The report written by Jessica Batke, ChinaFile Senior Editor, and Mareike Ohlberg, Senior Fellow in the Asia Program at the GMF, is based on an analysis of some 3,100 publicly available Chinese government procurement notices related to purchases of products and services to help officials monitor and control public opinion across China between January 2007 and late August 2020. “The emergence of the public opinion service sector offers a glimpse of what techno-authoritarianism (an oft-cited but under-explained phrase) might actually look like in practice in China: the Party-state's use of, and reliance on, private technology companies to manage the volatile interaction between ideas, speech, and society.”

5. Technological Competition: The New Epicenter of Geopolitics

“A Transatlantic Effort to Take on China Starts with Technology”

Eileen Donahoe and Alina Polyakova, The Center for European Policy Analysis, December 15, 2020

In short: Only unity on tech policy can keep democracies’ competitive advantage over China.

Technology is now the epicenter of geopolitics. The race to dominate in technological innovation goes far beyond market competition – more importantly, it is normative competition between authoritarian and democratic visions. Against this backdrop, Alina Polyakova, President and CEO of the Center for European Policy Analysis (CEPA) and Eileen Donahoe, Executive Director of the Global Digital Policy Incubator (GDPI) at Stanford University, are calling for strategic cooperation between the United States and Europe on technology policy to increase competitiveness, protect the democratic digital domain, and engender innovation. In their joint paper, they sketch out the differences between the Chinese, EU, and U.S. digital agendas and lay out a road map for a shared transatlantic approach.

“What the Cold War can teach Washington about Chinese tech tensions”

Brendan Thomas-Noone, Brookings, January 12, 2021
**In short:** China's rise as a scientific and technological superpower will require fundamentally new thinking from Washington in how it works with its allies.

After decades of globalization, technological integration and open high-tech trade, justified anxieties have returned in Washington and its allied capitals over the depth and nature of their scientific and technological relationships with Beijing. For the most part, today’s debates over the shape of the West’s technological and scientific relationship with China are not new, and in some ways are strikingly similar to those that occurred during the Cold War, argues Brendan Thomas-Noone, research fellow at the United States Studies Centre at the University of Sydney, in this paper. But the history also clarifies what is different. China will very likely be a larger, more sustainable, and advanced scientific and economic power than the Soviet Union ever was. Continued engagement with it on issues related to building a common technical and scientific understanding will be necessary.

“*The Weak Links in China's Drive for Semiconductors*”

Mathieu Duchâtel, Institut Montaigne Policy Paper, January 2021

**In short:** Europe has to reduce its vulnerabilities in the semiconductor industry and organize its long-term resilience.

Semiconductors are crucial to China’s global leadership ambitions, but China’s trouble is no longer hidden, despite massive policy support to the booming sector, writes Mathieu Duchâtel, Director of the Asia Program at Institut Montaigne, in this policy paper. The Chinese semiconductor sector enjoys massive policy support as a strategic priority, but is also increasingly the target of U.S. technology transfer restrictions. The paper also discusses the implications for Europe of these changing geopolitics of technology. The ongoing tech war has exposed the vulnerabilities of the semiconductor supply chain. “Europe should act fast and play on its strengths to reduce its vulnerabilities to the shockwaves to come in a strategic sector at the heart of the US-China tech rivalry.”

“*Decoupling - Severed Ties and Patchwork Globalisation*”

Report by European Chamber of Commerce in China in partnership with MERICS, January 14, 2021

**In short:** Decoupling threatens European firms in China.
This major report, released by the European Chamber in partnership with MERICS, measures the costs of decoupling for businesses operating in China. It finds that while the trade war has largely failed in its goal of forcing firms back to their home countries, the technology war is inflicting real damage on companies and economies alike. With decoupling dynamics showing no signs of reversing, solutions are quickly needed to deal with this new reality of “patchwork globalization”. Navigating the current and potential effects of this rapidly evolving reality is both complicated and distressing for European companies, particularly as they seek to expand their contribution and exposure to China’s post-COVID growth story. The report identifies nine interrelated ‘layers’ of decoupling organized under four main categories that are impacting businesses to varying degrees.

About the Literature Review

Democratic states are increasingly challenged by assertive authoritarian powers. China, in particular, has become an economically successful, technologically advanced autocracy and an ambitious global geopolitical actor who promotes its model as an alternative to liberal democracies and their values. At the Bertelsmann Stiftung, we think (and worry) a lot about this new systemic conflict and its consequences for Germany and Europe – and so do many of our peers in politics, think-tanks, academia or media. In this monthly compilation, Peter Walkenhorst maps the ongoing debate and points to important contributions he considers essential readings. Previous issues of this Literature Review can be found here:

- October 2020
- November 2020
- December 2020

PROJECTS

Germany and Asia