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Building a Transatlantic Approach to Economic Security

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Summary

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The emergence of the People's Republic of China (PRC) as an economic superpower presents a shared set of challenges to economic security on both sides of the Atlantic, ranging from the country's dominance of critical mineral supply chains to the impact of PRC 'overcapacity' on EU and US firms and its advancement in critical future technologies. Despite some promising joint initiatives, including the establishment of the EU–US Technology and Trade Council and the Minerals Security Partnership, the US and the EU have taken divergent approaches to managing economic security risks. This divergence is particularly noticeable in how they deal with subsidies, supply chain diversification, tariffs and investment restrictions.

This policy brief identifies several areas in which the next European Commission and European Parliament should deepen transatlantic cooperation and deal with the shared economic security challenge presented by the PRC. The brief puts forward a set of policy recommendations which include coordinating strategic investments in green technology production, expanding joint dialogues, creating shared standards on issues such as data security, reviewing the case for a 'Buy European' requirement for access to EU subsidies and a range of special measures to protect the EU's automotive industry.

Keywords Economic security – De-risking – Electric vehicles – Critical minerals – Tariffs – Transatlantic relations

Introduction

China's emergence as a global economic superpower presents a range of challenges to Europe's economic security. Acknowledgement of this reality has achieved a broad consensus across most European governments, with the EU's External Action Service labelling China as an 'economic competitor' as well as a 'systemic rival' ahead of the EU–China Summit in December last year.[1] Even Germany, which maintains by far the closest trading relationship with China of all EU countries, has stated that economic 'de-risking is urgently needed' in its first public strategy document on China.[2]

Both of these descriptions point to the complexity of China's challenge to Europe's economic security, which encompasses both elements of 'competition' and the negative impact it could have on European businesses, jobs and the broader economy, and elements of 'strategic risk', which include China's ability to leverage its economic power to the detriment of Europe's geopolitical and security interests.

Economic security challenges shared by the EU and the US

Facing economic headwinds, including a slumping property market, a fall in foreign direct investment and a declining birthrate, the Chinese government is now seeking to export its way back to high growth via a 'trio' of electric vehicles (EVs), lithium-ion batteries and solar photovoltaic cells through leveraging 'new quality productive forces'[3] aimed at developing future industries.[4] This strategy appears to be seeing some success. According to Chinese government officials,

1 European External Action Service, 'EU–China Relations' (December 2023).

2 German Federal Foreign Office, 'Strategy on China of the Government of the Federal Republic of Germany' (Berlin, 2023), 10.

3 *Citigroup*, 'China Economics: Out With the Old Three and in With the New Three', 8 January 2024; A. R. Kroeber, 'Unleashing "New Quality Productive Forces": China's Strategy for Technology-Led Growth', *Brookings*, 4 June 2024.

4 The list of future industries published by the Ministry of Industry and Information Technology includes humanoid robots, quantum computers, a new type of display, brain-computer interfaces, 6G network equipment, a new type of ultra-large-scale intelligent computing centre, the third generation of the Internet, high-end cultural tourism equipment, advanced and efficient aviation equipment, and deep resource exploration and development equipment. 中华人民共和国工业和信息化部 Ministry of Industry and Information Technology of the People's Republic of China, '工业和信息化部等七部门关于推动未来产业创新发展的实施意见'.

green exports rose by 30% to $147 billion last year.[5] The drive to increase exports at a time when Europe is trying to de-risk its dependency on China sets the scene for growing economic tensions between the two.

These challenges are not faced by Europe alone. Like Europe, the US has seen trade with China boom in recent decades, hastening the decline in its domestic manufacturing sector and driving closer integration with global supply chains dominated by China.

However, despite these common challenges, the US and Europe have taken divergent approaches towards resolving these problems. In the case of the US, the Biden administration has taken a proactive approach to protect the US's economic security. Measures include introducing significant tariffs on green technology exports from China and offering $500 billion (€461 billion) in subsidies and tax incentives for American companies working in the green technology, semiconductor and critical minerals sectors to stimulate the domestic market, as well as utilising its sanctions and investment ban regime to target Chinese companies with links to the People's Liberation Army.[6]

The EU has diverged in part from this approach, avoiding investment bans, using its sanctions tools sparingly and leaving much of the de-risking and protection of economic security to individual member states. In the case of the subsidies and tax incentives arranged under the Next Generation EU programme, member states have been offered a relatively free hand in applying for funds for individual projects.

This policy brief takes a closer look at three core challenges to economic security faced by both Europe and the US: critical supply chain dependency, 'overcapacity' concerns and China's advancement in military and strategic technology. Given these shared challenges for the EU and the US, this brief outlines practical policy recommendations for policymakers in Europe and America to foster closer transatlantic cooperation and coordination when responding to the risk that China poses to economic security.

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5 Ministry of Foreign Affairs of the People's Republic of China, 'Foreign Ministry Spokesperson Wang Wenbin's Regular Press Conference', 12 March 2024.

6 A. Swanson, 'Trump Bars Investment in Chinese Firms With Military Ties', *The New York Times*, 12 November 2020; N. Gordon and M. McBride, 'The New U.S. Clean Tech Tariffs Will Have Global Impacts', *Emissary*, Carnegie Endowment for International Peace, 16 May 2024; The White House, *Building a Clean Energy Economy: A Guidebook to the Inflation Reduction Act's Investments in Clean Energy and Climate Action* (January 2023).

Challenge 1: Critical supply chain dependency

The impact of supply chain disruption caused by the Covid-19 pandemic has led to an increased interest in the resilience of critical supply chains as a key factor in economic security. Though China takes a large share of global production in a range of critical industries, from pharmaceuticals to telecommunications equipment, its dominance at nearly all stages of the green technology supply chain is particularly pronounced.

Table 1 China's share of global production capacity in 2023 (%)

Item	
Solar panels	81.4%
EVs	59.1% in 2023 (actual production)
Lithium-ion batteries	36.5%

Sources: Data from *Wood Mackenzie*, 'China to Hold over 80% of Global Solar Manufacturing Capacity from 2023–26'; *IEA*, 'Trends in Electric Vehicle Batteries – Global EV Outlook 2024'; C. McKerracher, 'China Already Makes as Many Batteries as the Entire World Wants'.

As US and European policymakers aim to rapidly adopt a range of green technologies, from solar to wind and EVs, dependence on Chinese supply chains for core elements of critical infrastructure is set to increase. Solar, the cheapest form of renewable energy production, demonstrates the scale of this challenge. The EU Solar Energy Strategy aims to scale up to almost 600 gigawatts of solar power capacity by 2030, amounting to a near tripling of the current installed capacity, after which solar energy is set to make up between 17% and 23% of the EU's electricity mix.[7] Yet this increase is highly dependent on importing solar panels from China. Analysis from the China Strategic Risks Institute estimates that approximately 70% of solar installations in 2022 were dependent on modules imported from the People's Republic of China (PRC), with EU domestic production able to satisfy at most 22.7% of planned installations.[8]

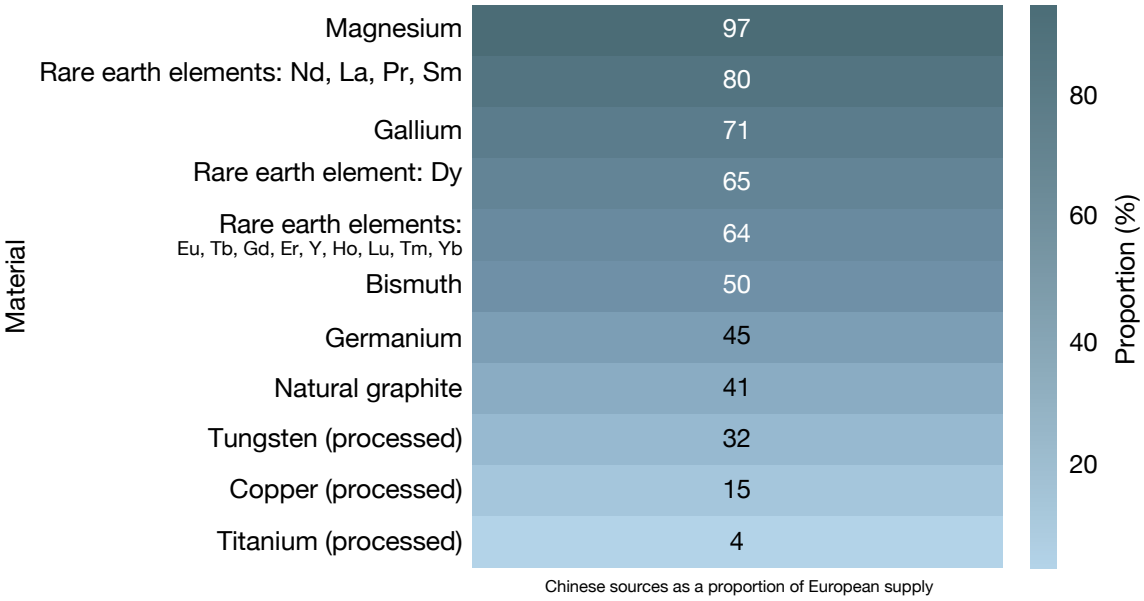
As illustrated below, China's dominance across the critical supply chain extends to the critical raw materials stage. This has ramifications not just for green technologies, with materials such as lithium, cobalt and rare earth elements critical

[7] *SolarPower Europe*, 'New Report Reveals EU Solar Power Soars by Almost 50% in 2022', 19 December 2022; European Commission, *Non Paper on Complementary Economic Modelling Undertaken by DG ENER Analysing the Impacts of Overall Renewable Energy Target of 45% to 56% in the Context of Discussions in the European Parliament on the Revision of the Renewable Energy Directive* (20 June 2022).

[8] A. Yeh and M. Woods, *Building a Green, Fair and Resilient Solar Supply Chain (EU & UK)*, China Strategic Risks Institute (23 November 2023).

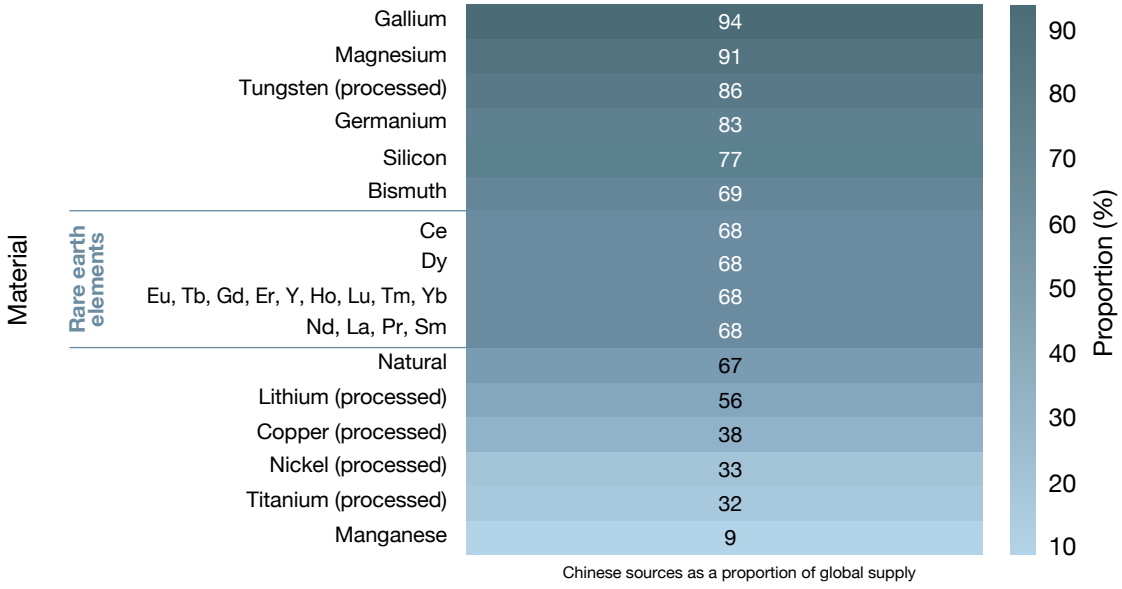
for goods such as EV batteries and wind turbines, but also for other advanced manufacturing, such as semiconductors, smartphones and medical devices.

Figure 1 Dependence of the EU on Chinese suppliers for strategic raw materials



Source: Data from *Scrreen*, 'CRMS 2023'.

Figure 2 Global dependence on Chinese suppliers for strategic raw materials



Source: Data from *Scrreen*, 'CRMS 2023'.

Note: These critical raw materials are from the fifth list of critical and strategic raw materials from the EU, published in 2023.[9] Broadly speaking, the strategic raw materials list can be viewed as a subset of the longer critical raw materials list, with the former having greater importance in the EU's green and digital transitions.

China's dominance over the green technology supply chain poses a number of risks to the US's and Europe's economic security. Disruption to the US's and Europe's ability to procure China's green technologies would lead to significant inflationary pressures on the energy and transportation sectors, with domestic production failing to satisfy growing demand. Failure to transition to green technologies could also lead to greater reliance on foreign energy imports and delay progress towards environmental targets.

The US has recently intensified its trade measures against Chinese solar imports to protect domestic manufacturing and reduce reliance on Chinese clean energy products, with President Biden announcing in May 2024 a doubling of tariffs on Chinese solar cells and modules from 25% to 50%. As a result, direct US imports of Chinese solar panels have become negligible, with most imports now coming from South-East Asian countries.[10] The loss of the US market makes the EU an even more crucial market for Chinese solar photovoltaic manufacturers—just as the EU is trying to bolster its own solar industry. In 2023, Europe already accounted for 58% of China's solar panel exports, receiving 66 gigawatts in the first half of the year alone.[11]

Recent events show that China is already considering how best to weaponise its dominance of critical supply chains to achieve its geopolitical goals. In 2023, China imposed export controls on germanium and gallium products, two metals used in semiconductor manufacturing, in response to US-led export controls on chip-making equipment. China has also taken a 'carrot and stick' approach to approving graphite licences to European countries, with exports to friendly countries such as Hungary increasing while exports to elsewhere in Europe have dropped.[12] Diversifying away from dependence on China's green technology supply chain is critical for both the US and Europe as they seek to reduce their vulnerability to economic coercion.

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9 European Commission, 'Proposal for a regulation establishing a framework for ensuring a secure and sustainable supply of critical raw materials and amending Regulations (EU) 168/2013, (EU) 2018/858, 2018/1724 and (EU) 2019/1020', COM (2023) 160 final (16 March 2023), Annex II, Section 1.

10 J. Lo, 'Days After Climate Talks, US Slaps Tariffs on Chinese EVs and Solar Panels', *Climate Home News,* 15 May 2024.

11 S. Hawkins, 'Solar Exports From China Increase by a Third', *Ember*, 13 September 2023.

12 *CEIAS*, 'CEEasia Briefing #50: EU's Anti-Subsidy Probe, China's Graphite Exports to Hungary, Germany–Vietnam Ties, EU Sanctions on Indian Company', 29 February 2024.

Challenge 2: Impact of China's 'overcapacity' on European and US firms (case study: EVs)

Chinese EV imports and the failure of European producers to create competitive alternatives in time for the green transition pose an existential economic threat to the European automotive industry that will result in a loss of profits, investment and ultimately jobs. As it stands, the automotive industry represents 6.1% of total EU employment, 8.5% of EU employment in manufacturing and provides 13.8 million Europeans with direct and indirect employment.[13]

Even without the threat of Chinese EVs, a study by PwC has forecast that around 275,000 automotive jobs could be lost to the transition towards EVs by 2040.[14] If Chinese EVs are able to gain a significant market share in Europe while squeezing European competition in China and in third markets, the European automotive industry could face significant economic pressures, which could lead to even more job losses across the sector.

A further risk presented by Chinese EVs is data security. Under both the PRC's Data Security Law (2021) and the PRC's National Intelligence Law (2017), Chinese EV producers are legally required to work hand in glove with the state when it comes to data and intelligence collection.

EVs report geolocation and performance data in real time; have software for some form of autonomous driving, navigation, infotainment, safety and sensory diagnostics; as well as having interconnectivity through Wi-Fi which offers real-time software updates, connection to traffic grids and travel updates. This creates a significant data security threat, which could enable a hostile state to plot the location of sensitive military sites and the movement of government and defence vehicles,[15] access smartphone data plugged into the EV and potentially interfere with the functionality of the vehicle by shutting it down.[16]

Alongside other parts of the EV supply chain, the PRC dominates the production of cellular Internet of Things modules (CIMs), with PRC companies having a market

13 European Commission, 'Automotive Industry'.

14 *CLEPA*, 'An Electric Vehicle-Only Approach Would Lead to the Loss of Half a Million Jobs in the EU, Study Finds', 6 December 2021.

15 A. Forrest, 'China Tracked Rishi Sunak Using Device Hidden in Car, Says Ex-Tory Leader', *The Independent*, 7 August 2023.

16 E. Roth, 'Remote Lockouts Reportedly Stop Russian Troops From Using Stolen Ukrainian Farm Equipment', *The Verge*, 2 May 2022.

share of well over 55%.[17] These CIMs could be used by Chinese EV producers to export data to the PRC and to interfere with and degrade the functionality of EVs.

The EU has set ambitious targets to transition to EVs as part of its broader climate goals. By 2035 all new cars and vans sold in the EU should be zero-emission, effectively phasing out internal combustion engine vehicles. In 2023 battery EVs represented more than 14.6% of all new cars sold in the EU, and plug-in hybrid EVs accounted for another 7.7%.[18] According to the International Energy Agency's estimate and the pledges announced by EU states, EV sales in the EU will rise to 14 million units in 2035, constituting 92% of total vehicle sales. Notably, this still falls short of the EU's goal for all new cars and vans to be zero-emission by 2035, albeit by a small margin. With EV sales in the EU at 3.3 million in 2023, a 424% increase in EV sales is still needed from 2023 to 2035.

China not only boasts the largest EV domestic market in the world, but it is the largest manufacturer and exporter of EVs as well. In 2023 China made 9.3 million EVs and exported around 900,000 to the rest of the world.[19] This dominance has been built with significant state support, as part of China's push to dominate EVs and clean technologies. In general, the Chinese government supports its domestic EV manufacturers through a range of measures, including the following:

- *Subsidies to producers and consumers*. China has provided substantial subsidies to the EV industry since 2009. Domestic firms have been the primary beneficiaries due to favourable criteria, including domestic content rules and minimum domestic production thresholds.[20] According to a study by the Kiel Institute for the World Economy, Chinese EV manufacturer BYD received at least £2.9 billion (€3.4 billion) in direct government subsidies from 2018 to 2022.[21]

- *Procurement policies*. The Chinese government's policies favour domestic brands in public procurement, mandating that a significant percentage of new energy vehicles in government and state-owned enterprise fleets be

[17] Team Counterpoint, 'Global Cellular IoT Module Shipments Record First-Ever Annual Decline', *Counterpoint*, 21 March 2024.

[18] European Commission' Directorate-General for Climate Action, '5 Things You Should Know about Electric Cars' (14 May 2024).

[19] *EV Volumes*, 'The Electric Vehicle World Sales Database'

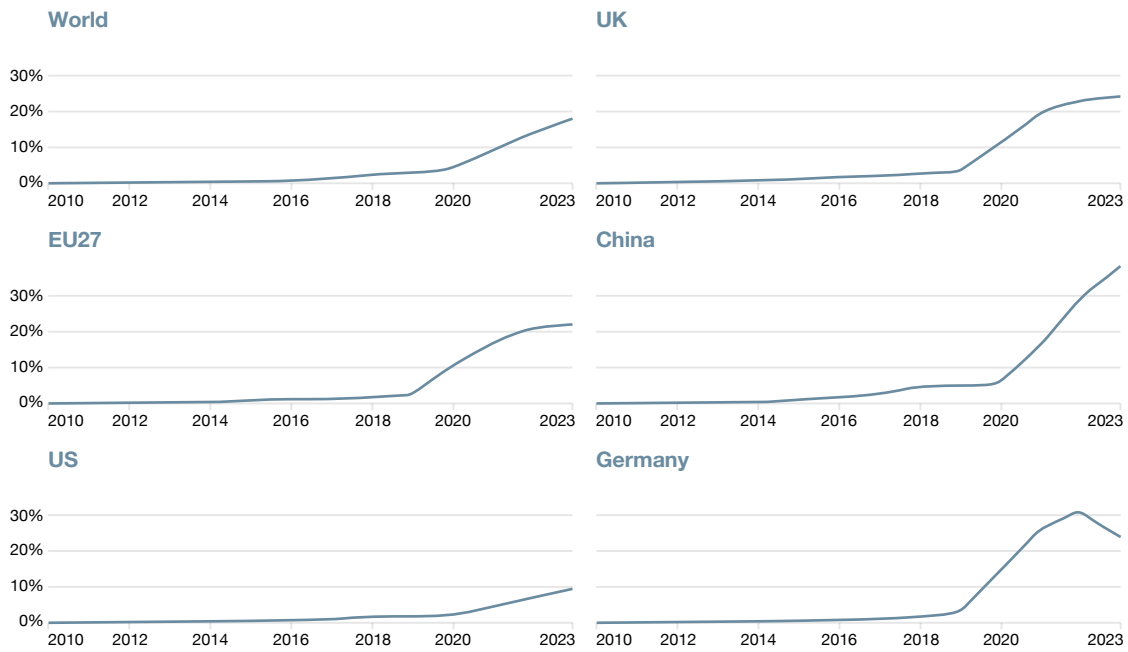
[20] Z. Yang, 'How Did China Come to Dominate the World of Electric Cars?', *MIT Technology Review*, 21 February 2023; *S&P Global*, 'China Continues Support for New-Energy Vehicles Despite Subsidy Phaseout', 11 November 2019.

[21] F. Bickenbach et al., *Foul Play? On the Scale and Scope of Industrial Subsidies in China*, Kiel Institute for the World Economy, Policy brief no. 173 (Kiel, 2024).

from domestic brands such as BYD and NIO, thereby boosting their sales and limiting foreign competition.[22]

- *Research and development*. Chinese EV manufacturers receive substantial government support for research and development, including grants, tax incentives and subsidies for developing new technologies.[23]

Figure 3 Share of new cars sold that are electric,[a] 2010 to 2023



Source: H. Ritchie, 'Tracking Global Data on Electric Vehicles', *Our World in Data*, February 2024. Reproduced by permission.

[a] Electric cars include those that are fully battery-electric and those that are plug-in hybrids.

China's EV market penetration in Europe, while relatively small compared to overall automotive sales, has grown rapidly from 1% in 2019 to around 8% in 2023. The European Commission has warned that this number could rise to 15% by 2025.[24]

This is in line with the view of analysts, who have proposed that excess capacity in Chinese automotive factories could be between 5 and 10 million cars

22 *S&P Global*, 'China Continues Support'.

23 *Evertiq*, 'Chinese State Prepares to Inject $830m Into Battery R&D', 3 June 2024.

24 G. Grieger, 'EU Anti-Subsidy Probe Into Electric Vehicle Imports from China', European Parliamentary Research Service PE 754.553 (18 October 2023).

a year.[25] The Rhodium Group has published research showing that China could have the capacity to export 560,000 cars annually to Europe in 2025, and excess capacity could surge to as much as 1.7 million cars in 2026.[26] Although the EU has since announced tariffs ranging between 17% and 38% on Chinese EVs, Rhodium Group has estimated that the EU would need to raise countervailing duties to at least 50% to make it impossible for Chinese EV producers to profit from selling in the European market.[27]

Early sales data for 2024 (first four months) suggests a slowing in the advance of Chinese automotive manufacturers into the Western European market. Although they were virtually nonexistent in the Western European market before 2018, their share of this market had grown to around 3% in 2023, with signs of a mild decline in 2024.[28] However, limiting the focus to pure battery EV sales by Chinese manufacturers gives a market share that is three times as large.[29]

A knock-on effect of rising Chinese EV exports could be the collapse of the European automotive sector, which continues to have the bulk of its EV supply chain in China and is dependent on China for electric battery technology. This would be similar to the PRC's takeover of Europe's previously dominant position in the solar sector.[30]

To avoid such a scenario, the next European Commission, Council and Parliament need to carefully consider measures that would allow them to coordinate and cooperate with the US to protect their domestic automotive sectors and support their transition towards EV production.

Challenge 3: China's advances in critical future technologies

China is making rapid progress in the development of advanced military and strategic technologies. A study by the Australian Strategic Policy Institute found that China leads the world in high-impact academic research in 37 out of 44 selected critical future technologies, including defence, space, robotics, energy,

25 *Reuters*, 'China EV Overcapacity Fix Would Be a Crowd Pleaser', 22 January 2024.

26 G. Sebastian, N. Barkin and A. Kratz, 'Ain't No Duty High Enough', *Rhodium Group*, 29 April 2024.

27 L. O'Carroll and J. Jolly, 'How Will New EU Tariffs on Chinese Electric Vehicles Work?', *The Guardian*, 12 June 2024; Sebastian, Barkin and Kratz, 'Ain't No Duty High Enough'.

28 M. Schmidt, 'The West European New BEV Electric Car Market Grinds to a Halt in 2024', *Schmidt Automotive Research*, 16 April 2024; M. Schmidt, 'China's Advance Into the West European New Passenger Car Market Appears to Have Hit the Buffers', *Schmidt Automotive Research*, 26 May 2024.

29 M. Schmidt, 'Chinese Car Manufacturers Are Struggling to Surpass 3% Market Share of the West European New Car Market', *Schmidt Automotive Research*, 25 March 2024.

30 D. Murtaugh, 'China Mulls Protecting Solar Tech Dominance With Export Ban', *Bloomberg*, 26 January 2023.

the environment, biotechnology, artificial intelligence, advanced materials and key quantum technology areas.[31]

Many of these sectors have dual-use potential. To take the advanced sensor sector as one example, China has the highest percentage of papers in the top 10% of highly cited papers in technologies such as radar, satellite positioning and navigation, and inertial navigation systems.[32] Some of these technologies may have civilian applications, such as the GPS functionality in a mobile phone, but may also have military applications, such as positioning forces or guiding munitions.

As the authors of the Australian Strategic Policy Institute report point out, China's leading research position means that it has set itself up to excel not just in current technological development in almost all sectors, but also in future technologies that do not yet exist. This poses a number of risks to both the US's and Europe's economic security, as well as presenting broader strategic challenges:

- *Monopolisation*. China's economic model is well suited to developing 'national champions', such as Alibaba, Tencent and Huawei, which typically function as large private enterprises with access to significant state support and preferential treatment.[33] The monopolisation of key future technologies by one or a small number of Chinese companies could lead to higher prices and less choice for US and European consumers.

- *Supply chain dependencies*. China's efforts to establish a lead in future critical technologies could see it replicate the dominance of global supply chains that it has achieved in critical raw materials and green technologies. This could open up a new set of supply chain dependencies for the US and Europe.

- *Military capabilities*. Leading research in dual-use and military technologies strengthens China's military capabilities, allowing it to expand its hard power globally. This is particularly a concern with regard to China's increasing assertiveness in the Taiwan Strait and South China Sea—flashpoints which would cause major disruptions to global trade should conflict erupt.

[31] J. Gaida et al., 'ASPI's Critical Technology Tracker – Sensors & Biotech Updates', *Australian Strategic Policy Institute*, 22 September 2023.

[32] Ibid.

[33] J. Melnik, 'China's "National Champions": Alibaba, Tencent, and Huawei', *Entrepreneurship in Asia* 24/2 (September 2019).

Analysis of divergent approaches

Despite facing many of the same economic security challenges, the US and Europe have taken widely different approaches to managing these risks. First and foremost, the US has provided a more concerted and coordinated approach to subsidies that has focused on green manufacturing as a way to diversify critical supply chains from China. Under the Inflation Reduction Act (IRA), the US has supported domestic manufacturing of advanced technologies, including green technologies, through measures including tax credits, grants and loan guarantees totalling $369 billion, with an estimated $43 billion allocated for manufacturing for green energy, including solar, wind and batteries, and $30 billion for states and electric utilities to transition to renewable energy sources by 2033.[34]

The IRA specifically blocks any Chinese company from benefiting from subsidies, categorising it as a 'Foreign Entity of Concern'. In contrast, the EU's flagship Net-Zero Industry Act, designed as an answer to the competition to EU manufacturers posed by the IRA, does not provide direct subsidies to manufacturers. Instead, it aims to support European industries by simplifying the permitting process for strategic projects, updating public procurement rules to favour European producers and supporting the development of regional clusters.[35] Similarly, none of the €1.5 billion of fresh funding committed to the EU's Strategic Technologies for Europe Platform will be available for green manufacturing.[36] Rather than an EU-wide approach, subsidies that have been allocated have been implemented at the member-state level, with the relaxation of state aid rules through the Temporary Crisis and Transition Framework.[37] However, overall, the support available for European green technology production is far weaker than the IRA's $43 billion.[38] Another point of divergence is the use of tariffs against Chinese manufacturers. While both the US and the EU have leveraged tariffs in a bid to protect manufacturers from Chinese competition, the US has taken a much broader approach. In May 2024 the Biden administration announced increases in tariffs across sectors, including steel and aluminium, semiconductors, EVs, batteries, critical minerals

34 M. Zahn, 'Biden Climate Law Spurred Billions in Clean Energy Investment. Has It Been a Success?', *ABC News*, 29 January 2023; H. D. Zetzsche and J. L. Hiatt, 'Congress Approves $369 Billion in Climate Spending, Commits to Expedite Environmental Permitting', *Baird Holm LLP*, 16 August 2022.

35 M. Greenacre, 'EU Agrees Law to Support Green Tech Manufacturing', *Science Business*, 8 February 2024.

36 G. Gavin et al., 'EU's Green Funds Are Under the Guillotine', *Politico*, 15 December 2023; Greenacre, 'EU Agrees Law to Support Green Tech Manufacturing'.

37 European Commission, 'Temporary Crisis and Transition Framework'.

38 T. Bourgery-Gonse, 'Analysis: EU Subsidy Race Is on – And Germany Is Winning It', *Euractiv*, 12 September 2023.

and solar cells, with tariffs as high as 50% and 100% for solar cells and EVs, respectively.[39] In contrast, the EU has imposed tariffs only on EVs, ranging between 17% and 38%.[40] The EU launched and closed an anti-subsidies investigation into Chinese solar companies and, at the time of writing, has active anti-subsidies investigations into Chinese wind turbine and medical device producers.[41]

The US and the EU have also diverged in the approach taken to investment restrictions. While the US has implemented stringent investment restrictions on Chinese companies linked to the military, the EU has yet to enforce similar measures. For instance, a series of US Executive Orders prohibit investments in publicly traded securities of Chinese companies involved in the military–industrial complex or surveillance sector.[42] The US is also in the process of enforcing outbound investment restrictions targeting China's semiconductor, quantum computing and artificial intelligence sectors, with powers granted to the Treasury to prohibit or require notification of certain transactions.[43] In contrast, the EU is still in the consultation phase regarding outbound investment controls, announced in several European Economic Security Strategy White Papers published by the Commission in January 2024. Public consultation concluded in April, with the Commission likely to make concrete proposals for an outbound investment screening regime in autumn 2025 at the earliest.[44]

39 The White House, 'Fact Sheet: President Biden Takes Action to Protect American Workers and Businesses From China's Unfair Trade Practices', 14 May 2024.

40 O'Carroll and Jolly, 'How Will New EU Tariffs on Chinese Electric Vehicles Work?'

41 *Reuters*, 'EU Probes Into Chinese Subsidies and Imports', updated 4 July 2024.

42 K. Caine and K. McDougall, 'US Expands Sanctions Targeting Investments in Securities of Chinese Military Companiest', *Norton Rose Fulbright*, 17 June 2021; T. A. Soliman et al., 'US Investment Ban Targeting Companies Deemed Linked to Chinese Military Expanded to Chinese Surveillance Technology Sector', *Mayer Brown*, 9 June 2021.

43 C. Dallas, A. Costello and V. Gan, 'US Limits Semiconductor, Quantum Computing, and AI Investments in China', *Cambridge Associates*, August 2023; J. P. Barker et al., 'Biden Administration Limits U.S. Investment in Chinese Semiconductors, Microelectronics, Quantum Computing, and AI Sectors', *Arnold & Porter*, 11 August 2023; J. K. Kim, S. A. Lis and R. O'Brien, 'US Government Issues Executive Order Restricting US Outbound Investment in Advanced Technologies Involving "Countries of Concern" (China)', *Global Sanctions and Export Controls Blog*, 11 August 2023.

44 F.C. Laprévote et al., 'EU Takes Time to Ready Outbound Investment Control Toolkit', *Cleary Gottlieb*, 1 February 2024; S. Nordin and O. Berg, 'New Dual-Use Export Control and Outbound Investment Approach as Part of the EU's Economic Security Strategy', *White & Case LLP*, 6 February 2024; N. Hoolihan and S. Coleman, 'The Long and Complex Road to EU Outbound Investment Screening', *Linklaters*, 2 February 2024.

EVs as a case study for differences in the European and US approaches

The divergent approaches between the US and the EU can be seen most clearly in the contrasting response to China's EV competition. After stimulating its domestic EV market through subsidies and tax incentives as part of the IRA, the US announced on 14 May 2024 an increase in tariffs on Chinese EVs from 25% to 100% and on Chinese lithium-ion EV batteries from 7.5% to 25%. At the same time, under the IRA, a Chinese EV or an EV with a certain number of components from China is considered to be a 'Foreign Entity of Concern' and does not benefit from tax credits.[45]

In comparison, it has been suggested that Hungary will use EU funds to subsidise BYD, a Chinese EV manufacturer, to set up the company's first factory in Europe.[46] France's Finance Minister Bruno Le Maire has also stated that the French government would welcome Chinese EV manufacturers opening up factories in the country.[47] In response to the surge of EV imports from China, the European Commission announced on 12 June 2024 the conclusion of an anti-subsidies investigation and the beginning of countervailing duties on Chinese EVs ranging from 17.4% (for BYD) to 38.1% (for SAIC), with other producers subjected to a weighted average duty of 21% depending on their level of cooperation with the investigation and the amount of subsidy received by the manufacturer.[48]

The investigation and the announced countervailing duties have been met by opposition from German automotive producers, including Mercedes, BMW and Volkswagen, all of whom have a large manufacturing footprint in China and have been warned that they may face retaliatory tariffs from several member states with significant ties to the automotive sector.[49]

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45 C. Pan-Giordano et al., '"Foreign Entity of Concern" and Its Impact Under the Inflation Reduction Act', *Dorsey & Whitney LLP*, 27 December 2023.

46 T. Berendsen and J. Lenaers, 'Hungarian Aid to Chinese Carmaker Threatens European Competitiveness', European Parliament, Parliamentary Question E-000306/2024 (31 January 2024).

47 *Reuters*, 'Chinese EV Maker BYD Welcome to Open Factory in France, French Finance Minister Says', 6 May 2024.

48 European Commission, 'Commission Investigation Provisionally Concludes That Electric Vehicle Value Chains in China Benefit From Unfair Subsidies', 12 June 2024; Atlantic Council Experts, 'Europe Is Gearing up to Hit Chinese EVs With New Tariffs. Here's Why', *Atlantic Council*, 12 June 2024.

49 F. Bermingham, 'EU Feels Heat From All Sides as Decision on Chinese EV Duties Looms', *South China Morning Post*, 15 May 2024.

Existing areas of transatlantic cooperation

These divergences have not stopped positive transatlantic cooperation in some areas of economic security. The EU–US Trade and Technology Council was launched in September 2021 with the goal of addressing common challenges to 'shared democratic values' and strengthening 'our technological and industrial leadership'. Tangible results include a joint early warning mechanism aimed at identifying potential supply chain disruptions and a common methodology for identifying and countering foreign information manipulation and interference on digital media platforms, with plans to develop Internet infrastructure projects for Kenya, Costa Rica and the Philippines.[50]

Similarly, the EU, along with six of its member states, is represented in the US-convened Minerals Security Partnership to facilitate targeted financial and diplomatic support for strategic projects along the critical minerals value chain.[51] The project is targeted at the minerals most relevant for clean energy technologies, including lithium, graphite, rare earth elements and copper, and covers the mining, processing and recycling stages. So far, the Minerals Security Partnership has supported 23 projects, with publicly available information showing projects receiving $105–$900 billion each. The projects include a manganese re-processing plant in Czechia to supply the EV industry and a rare earth magnet recycling facility in Birmingham, UK.[52]

Recommendations for EU policymakers

Research and consultations with insiders and topical experts reveal that significant opportunities exist for EU and US policymakers to deepen coordination when it comes to the shared challenge that the PRC presents to economic security. The following policy recommendations to the EU and its specific bodies are proposed:

[50] *EU–US Trade and Technology Council*, 'TTC Ministerial: Foreign Information Manipulation and Interference in Third Countries', 29 May 2024; *Office of the United States Trade Representative*, 'U.S.–EU Joint Statement of the Trade and Technology Council', 31 May 2023; *European Commission*, 'Joint Statement EU–US Trade and Technology Council of 4–5 April 2024 in Leuven, Belgium', 5 April 2024.

[51] US Department of State, 'Minerals Security Partnership'.

[52] US Department of State, 'US Minerals Security Partnership Backs Mining and Recycling Projects', *Mirage News*, 11 October 2023

Recommendation one:
Invest in manufacturing strategic green technologies

Using the G7 Partnership for Global Infrastructure and Investment (of which the EU Global Gateway is a part), the European Commission should work with the US, G7 counterparts and partners in the Indo-Pacific region to coordinate strategic investment in green technology production to diversify key stages of the supply chain away from China.

Areas for potential joint strategic investments include Vietnam, Malaysia and other countries in South-East Asia for the earlier stages of the solar photovoltaic supply chain, stable long-term investments in wind projects and financing with selective suppliers outside of China, and investments in battery gigawatt factories using non-Chinese companies.

Recommendation two:
Deepen critical minerals partnerships

The incoming European Commission should expand and deepen the Minerals Security Partnership to emphasise the need for critical mineral refinement projects. It should build capacity in copper and zinc production for the wide applications of these metals and their byproducts in manufacturing green technologies, and cobalt and gallium for semiconductor chip production.[53]

Using the existing Climate and Clean Tech working group within the EU–US Technology and Trade Council, the European Commission should negotiate with the US for the creation of common standards for EV battery recycling and EV batteries.[54] This could build on the EU's Batteries Regulation and the IRA's battery recycling standard, and in turn these negotiations could serve as the starting point for a broader move towards common US–EU standards for EVs.[55]

At the same time, the incoming European Parliament should investigate and hold hearings regarding the use of forced labour in the current critical minerals supply chain and compliance with the EU's Corporate Sustainability Due Diligence Directive in the Subcommittee on Human Rights and the Committee on Industry, Research and Energy.

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53 O. Goswami, 'Chipping in: Critical Minerals for Semiconductor Manufacturing in the U.S.', *MIT Science Policy Review* 4 (31 August 2023).

54 *European Commission*, 'EU–US Trade and Technology Council (2021–2024)' (3 May 2024).

55 European Commission' Directorate-General for Environment, 'New Law on More Sustainable, Circular and Safe Batteries Enters Into Force' (17 August 2023).

Recommendation three: Facilitate a transatlantic dialogue on economic security

The incoming European Commission should commit to having an EU–US summit on economic security within the first year of its term, which would serve to bolster cooperation and coordination on green technologies, outbound investment and critical mineral supply chains. This could be used to give fresh impetus to the work of the EU–US Technology and Trade Council, agree political support for moves towards deepening cooperation on economic security and agree on a fixed timeline for a new set of joint US–EU measures to combat the threat from the PRC.

Building on the outcomes of this summit, the current annual EU–US China Dialogue, which is managed by the European External Action Service, should be expanded to formally include officials from the Directorate-General for Trade and the Director General for Competition to focus these discussions on shared interests regarding economic security.

Ahead of the summit, the incoming European Commission should review the case for introducing a 'Buy European' requirement for companies before they can access EU subsidies as a precursor to negotiations with the US regarding access to the IRA for European companies and the creation of a common subsidy-sharing scheme.[56]

Recommendation four: Protect the EU single market

The incoming European Commissioner for Competition should launch an investigation into Chinese EV data transfers from Europe to China and whether Chinese EV producers are compliant with the EU's General Data Protection Regulation.

Alongside this, the incoming European Commissioner for Competition should commit to reviewing the EU's countervailing duties on Chinese EVs within the first year of the Commission in line with an assessment of the growth of Chinese EV imports and in consultation with US counterparts.

Recognising the move towards Chinese–EU EV joint ventures, the incoming European Commission should commit to reviewing its investment screening regime

[56] B. W. Setser, 'How the U.S. and EU Could Harmonize Their Approaches to Trade in EVs and Steel', Council on Foreign Relations, 29 November 2023.

to look at rules regarding joint ventures to examine local ownership requirements, data security requirements and local component requirements.[57]

The Committees on International Trade and on Industry, Research and Energy of the incoming European Parliament should also hold hearings with automotive producers to investigate and conduct an economic risk assessment of the impact that Chinese EVs will have on the European automotive market.

Recommendation five: Deepen the work of the EU–US Technology and Trade Council

The Exports Control Cooperation and Investment Screening Cooperation Working Groups of the EU–US Technology and Trade Council should look at coordinated outbound investment restrictions on Chinese companies working on civil and military fusion in artificial intelligence, quantum computing and semiconductor chips, with plans for the introduction of coordinated restrictions by the middle of 2025.

The incoming European Commission, using the Information and Communications Technology Security and Competitiveness Working Group of the EU–US Technology and Trade Council, should negotiate shared EU–US standards on CIMs and further actions to protect European and American CIM producers. Strict privacy standards should also be introduced for CIMs in EVs and other smart appliances.

The incoming European Commission should also recommend that the UK be given formal observer status of the EU–US Technology and Trade Council to ensure coordination when it comes to issues of shared economic security regarding China.

[57] J. Hanke Vela and J. Dahl, 'Europe Gives China a Taste of Its Own Trade Medicine', *Politico*, 18 June 2024.

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