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EUROPE FIRST—THE EUROPEAN RESPONSE TO MADE IN CHINA 2025 AND AMERICA FIRST

BY JONAS HEERING

Across both sides of the Atlantic, governments are raising the alarm over economic competition from China. Both the European Union and the United States have criticized Chinese trade-distorting practices, including forced technology transfer, state-owned enterprise-driven foreign direct investment, and industrial subsidies.[1,2] However, despite agreement among politicians in Brussels and Washington over the challenge China poses, efforts to coordinate a response have been undermined by unilateral action of the Trump administration. In a retreat to protectionism under "America First," the United States has been waging a trade war with China, imposing and threating tariffs on its European allies, and pressuring the European Union to adopt a more confrontational approach vis-à-vis China.[3]

Although President Donald Trump's approach has been successful in pushing the EU to adopt a tougher stance—the European Commission recently labeled China an "economic competitor" and "systemic rival" in its 2019 E*U-China–A Strategic Outlook* communication—his unilateral confrontation with China and simultaneous tariff threats against his allies are encouraging the European Union to adopt more state-interventionist policies as well.[4] Powerful voices inside the European Union already are advocating for an EU industrial policy that foresees greater state involvement to protect European interests and firms via government subsidies and other forms of preferential treatment. This approach could ultimately hurt U.S. businesses by increasing the global competitiveness of European firms and potentially restricting access to the European market to all foreign firms.

RESPONDING TO THE UNITED STATES AND CHINA

So far, the most prominent call for a more defensive and state-interventionist EU industrial policy has come from the German government. In Germany's *National Industrial Strategy 2030*, economic minister Peter Altmaier has advanced a vision for a German and European industrial policy that advocates: maintaining intra-EU closed value-added chains in the industrial sector; temporary state-ownership of strategically important companies; promoting "national and European champions" through subsidies and looser EU competition rules; and using government intervention to boost competitiveness of EU-based firms in

technology sectors, including the digital economy, autonomous vehicle technology, and Artificial Intelligence (AI).[5] Such measures would provide an artificial competitive edge to European firms at the expense of foreign competitors.

Although these elements of Germany's draft industrial strategy clearly are intended to address European concerns regarding economic competition from China, they also are a response to U.S. protectionist policies under the Trump administration. The release of the strategy comes amid heightened transatlantic trade tensions given Trump's looming threat to impose auto tariffs on the European Union and Europe's waning confidence in U.S reliability as a global partner.[6]

The suggestion to maintain "closed value added chains … in an economic area"—meaning the European Union—is likely motivated by rising production costs and supply chain disruptions driven by the U.S.-China trade war and overall global uncertainty over trade policy.[7,8] Closed value-added chains, established by consolidating research and development, production of parts, assembly, and distribution, are likely a bid by the European Union to build resiliency amid an unpredictable global economic environment.

The German draft policy mentions the United States alongside China as an economic competitor and points to China's industrial policy, "Made in China 2025," and U.S. policies under "America First," to justify the need for a European industrial policy that puts Europe first.[9] Ironically, by recommending increased state intervention in the economy, the European Union is essentially taking a page out of the Chinese economic playbook.

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A BLUEPRINT FOR AN EU INDUSTRIAL POLICY?

Not all elements of Germany's draft national industrial strategy will find their way into an EU-wide industrial policy—or even Germany's final industrial policy. Altmaier's proposal has earned widespread criticism, including from his ministry's own economic advisory council.[10] However, the strategy is intended to influence the debate in Brussels and send a clear message to the United States by insisting that "German industrial policy must always also be European industrial policy."[11]

Recent developments suggest that the German proposal is getting traction, though EU-internal disagreements over the exact nature of an industrial policy are bound to ensue. Shortly after Altmaier presented the strategy, the German Ministry for Economic Affairs and Energy, together with its French counterpart, issued *A Franco-German Manifesto for a European industrial policy fit for the 21st Century*. The manifesto echoes Germany's calls to weaken EU competition law to facilitate the

creation of European champions and to allow temporary state involvement in specific sectors.[12] Spain's prime minister and the EU Commissioner for Competition Margrethe Vestager have voiced support for an EU industrial policy, although they resisted the idea of loosening competition rules.[13,14] With the EU27's two largest economies steering the policy debate, it is only a matter of time until the bloc implements some form of industrial policy.

BAD FOR U.S. BUSINESS

If implemented, whether just in Germany or at the European level, a more defensive and pro-European industrial policy will inevitably affect, both directly and indirectly, U.S. businesses operating in or exporting to the European Union. For instance, maintaining intra-EU value-added chains in the automotive industry, which frequently is highlighted as a strategically important sector in the German draft policy, also would limit market access for U.S. suppliers of car parts. The European Union is the third-largest export destination for U.S. automotive parts, accounting for $10.9 billion in 2018, or 12 percent of total U.S. exports of automotive parts.[15]

Likewise, although the use of state intervention to prevent foreign takeovers of companies relevant to national security is primarily meant to curb Chinese investment in Europe, the practice could be expanded to block acquisition bids originating from other countries, including the United States. For U.S.-based companies, this is particularly concerning considering that the German draft policy identifies U.S. venture capital firms buying out European start-ups as a challenge to the European economy and suggests that the government provide "encouragement and support" where "takeover attempts concern technology and innovation leadership" rather than national security concerns.[16,17] Given that the French government once vowed to block the takeover of Danone by PepsiCo after labeling the yogurt maker a "jewel" of French industry, the prospect of the European Union preventing U.S. acquisitions of European AI companies, for example, would not be too far-fetched.[18]

Amending EU competition law and proliferating the use of government subsidies to promote European champions would affect U.S. companies indirectly by employing non-market measures to unfairly increase the global competitiveness of European firms at the expense of both Chinese and U.S. competitors. At the very least, it will further exacerbate problems currently straining the transatlantic trade relationship.

Subsidizing EU companies will lower prices for European products, both domestically and abroad. This will in turn only widen the European Union's trade surplus with the United States, which has drawn the ire of the Trump administration.[19] EU subsidies to Airbus, a company often highlighted as the poster child of successful industrial policy, have been at the center of a long-standing and recently escalating WTO dispute with the United States, which has threatened to impose $11 billion in additional tariffs on European goods in retaliation for

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the bloc's subsidies to the airplane manufacturer.[20] More EU subsidies in the industrial sector are thus sure to incite additional transatlantic trade disputes.

Furthermore, EU competition law could be changed not only to facilitate the mergers of domestic firms to create European champions but also to prevent foreign firms from expanding their EU market shares. The European Commission has been investigating U.S. tech companies and slapping fines on them for violating anti-trust regulation, and several EU member states have implemented a controversial digital services tax that applies almost exclusively to U.S. tech giants.[21,22] If these developments are in any way indicative of how a more pro-European industrial policy would affect U.S. industrial companies, it would be a cause for concern.

Although the discussion of an EU-wide industrial policy is still nascent, the German proposal for a national and European industrial policy illustrates how the EU could implement more state-interventionist measures in response to economic competition from the United States and China. The White House certainly welcomes more defensive EU policies vis-à-vis China; however, such policies would inevitably harm U.S. businesses as well, either indirectly through increased competition from European companies or directly by limiting access to European markets for foreign firms.

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ENDNOTES

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