

Abstract

Strategic engagement with China was crucial to the development of the U.S.-led global neoliberal order, allowing U.S. and other multinational corporations to access China's vast pool of cheap labor and expanding consumer market. Yet, China's further advance now also presents an increasingly serious challenge to that order and to the cohesion of its Atlanticist core. The United States and the European Union have yet to confront, much less resolve, this fundamental contradiction. European capitalism remains heavily dependent on the American superpower. At the same time, China is now also an increasingly important arena for European—and especially German—exports and foreign direct investment. Thus the U.S. strategy of containment through a project of decoupling and bifurcation represents a significant threat to Europe. What are the prospects for European “strategic autonomy” in view of America's increasingly coercive economic diplomacy?

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China's extraordinary ascent following its entry into global capitalism in the 1980s has given rise to a new era of great power rivalry. Strategic engagement with China was crucial to the development of the U.S.-led global neoliberal order, allowing U.S. and other multinational corporations to access China's vast pool of cheap labor and expanding consumer market. Yet, China's further advance now also presents an increasingly serious challenge to that order and to the cohesion of its Atlanticist core. The United States and the EU have yet to confront, much less resolve, this fundamental contradiction,

I. CONFRONTATION AND CONTAINMENT

Launched by the Obama administration in 2011, the U.S. containment strategy gathered steam under Donald Trump and will accelerate under President Biden. The “pivot to Asia” saw the redeployment of military forces Europe and the Middle East to the Asia Pacific region and introduced modest restrictions on China's FDI in the United States. Through the Transpacific Partnership (TTP) and the abortive Transatlantic Trade and Investment Partnership (TTIP), Obama hoped to slow down and ultimately contain China's rise.

By the time of Donald Trump's presidential inauguration in 2017 those hopes had faded. China had displaced the United States as the world's largest economy (in PPP terms), and had launched ambitious new projects such as the “Belt and Road Initiative”(2013), and “Made in China 2025” (2015) that directly challenged U.S. economic and technological supremacy and penetrated into U.S. spheres of influence. At the same time, the PLA began to militarize islands, atolls, and other contested territories in the South

China Sea. Calling for a “free and open” “Indo-Pacific” region the Trump administration pursued a far more aggressive containment strategy. China (along with Russia) was designated as a “revisionist” power and “strategic competitor.” The United States withdrew from the neoliberal and, hence, deeply unpopular TPP, which had in fact provided very little leverage over China, and negotiations with the EU on the already foundering TTIP were halted.

Tariffs and Technology: Forward Strategy

In 2018 Trump turned his attention to international trade by enacting tariffs on steel and aluminum imports from China, Russia, and the EU. The EU and China retaliated with tariffs aimed at U.S. farmers and manufacturing workers. The EU and the United States declared a truce in July 2018, under which both sides refrained from the imposition of further tariffs. The United States renegotiated its trade agreement with Canada, and Mexico and in late 2018 the three countries signed the U.S.-Canada-Mexico Agreement (USMCA). While retaining most of the neoliberal elements of the previous North America Free Trade Agreement (NAFTA), the USMCA contains new language that will reduce the sovereignty of the U.S.’s regional neighbors and increase U.S. strategic economic depth. Canada and Mexico are effectively prohibited from signing bilateral trade agreements with “non-market” economies. The USMCA thus becomes a template for future “America First” trade negotiations with the EU that could potentially isolate China.

In July, 2018 Donald Trump imposed sweeping tariffs on China in retaliation for alleged unfair trade practices. of which \$370 billion remained at the end of 2020. In January, 2020 the two sides signed a “Phase 1” trade deal, which agreed to roll back tariffs and called for greater protection of property rights, removal of restrictions on U.S. firms in China’s capital markets, and the elimination of compulsory technology transfers. However, China’s commitments to buy at least \$200 billion of U.S. goods and services have not been realized.

The United States also carried out a series of military measures, including withdrawal from the Immediate Range Nuclear Forces Treaty (INF), the installation of anti-ballistic missiles in South Korea, nascent alliance formation in the “Indo-Pacific” with the “Quad” (USA, Australia, Japan, Australia) involving U.S.-Indian naval exercises at the end of 2020, enhanced “freedom of navigation” patrols in the South China Sea, provocative symbolic gestures towards Taiwan, and assurance to Japan concerning its dispute with China over the Senkaku/Diaoyu islands. For its part, China has expanded its own patrols in the South China Sea, constructing military facilities on islands, pressuring countries that challenge

China's territorial claims, and increased fighter patrols near Taiwan. In 2020 Chinese and Indian forces engaged in a series of deadly skirmishes along the Sino-India border. Washington's economic and military measures were accompanied by inflammatory rhetoric, in large part for domestic consumption. The Trump administration openly accused China of intentionally spreading the covid-19 virus throughout the world. In November, 2020 U.S. Secretary of State Pompeo called China's leaders "Marxist-Leninist monsters" (U.S. Dept. of State, 2020).

Trump's "America First" project divided the U.S. foreign policy establishment and antagonized allies in Europe and Japan, who warned of growing American isolationism. The escalating ideological and commercial offensive elicited approval from the U.S. military-industrial complex as well as domestic manufacturing and energy firms closely connected to the White House and Office of U.S. Trade Representative. It also attracted bipartisan support from within an increasingly hawkish Congress. Wall Street and Silicon Valley reacted with greater ambivalence, recognizing the threat posed by China's rise but still seeking to penetrate further into China's large and growing consumer and capital markets (Cafruny, 2019).

To be sure, Trump's "America First" doctrine abandoned the formal multilateralism that had characterized the construction and expansion of the *Pax Americana* since World War II. However, it did not result in isolationism or retreat, as commonly assumed. It dismantled or restructured existing practices and agreements in favor of "divide and rule" bilateral pacts and policies designed to leverage underlying American structural power and expand the reach of U.S. corporations, to protect their intellectual property, and to dominate new technologies such as artificial intelligence and 5G systems with military as well as commercial applications. While China has been the main target of this tactical shift, Europe is now in the crosshairs. Alongside empty threats to withdraw from NATO the EU was declared a foe and Germany's large trade surpluses with the United States were singled out for special attention (Cafruny and Talani, 2019). These steps have been augmented by a series of extraterritorial or secondary sanctions designed to reassert U.S. power over European and especially Germany's access to technology as well as energy resources and markets in Iran and Russia.

Tariffs did not reverse the deindustrialization of the U.S. economy. Between 2016 and 2018 nearly 1800 U.S. factories disappeared (EPI, 2020). The trade deficit with China declined modestly in 2019 even as the overall trade imbalance soared. However, in 2020 increased dramatically and remains essentially where it was prior to the trade war (Zumbrun and Davis, 2020). China's rise has accelerated in the context of the pandemic. Its growth rate in 2020 is projected to have increased by 1.9% while the U.S.

economy is expected to shrink by 4.3% and the Eurozone to contract by 8.3% (OECD, 2020).

Notwithstanding limited “de-coupling,” most corporations that have left China have not returned to the United States (Hoang and Zhou, 2020; Fang, 2020). However, China’s removal of capital market restrictions on foreign banks and corporations as stipulated by the Phase 1 trade deal has enabled many of Silicon Valley’s largest firms as well as large U.S. banks to expand substantially their presence in China (Li and Ting Fang, 2020; Yu, 2020; Weinland, 2020; Hale, et al., 2020). This provides important perspective for understanding “de-coupling” as “grand strategy.” (Magnus, 2020).

A second and more ominous front, a “digital iron curtain” or technological sphere of influence, was opened in 2019 with potentially far more serious implications for Europe. At the outset this project involved unilateral U.S. sanctions on China’s major tech giants such as ZTE, Huawei, and Semiconductor Manufacturing International Corporation (SMIC), ostensibly on national security grounds but with clear commercial implications. These were followed by extra-territorial or “secondary sanctions” on suppliers along with sweeping restrictions on Chinese investments in the United States. The imposition of a potentially devastating global embargo on semiconductor supplies to Huawei in order to curtail its leadership over 5G technology has been compared by numerous observers to the U.S.-led embargo and subsequent freezing of Japanese assets in 1941 that precipitated the attack on Pearl Harbor (Kessler, 2020; Allison, 2020). As U.S. Senator Ben Sasse observed, “The United States needs to strangle Huawei. Modern wars are fought with semiconductors.” (Swanson, 2020).

While the new Biden administration can be expected to introduce some tactical changes in its containment policy, the core strategy of containment through selective bifurcation/decoupling will almost certainly persist, even as the new administration seeks to reset the transatlantic relationship on terms more favorable to U.S. corporations. Thus the return of great power rivalry presents novel challenges to the EU, and to Germany in particular. Can the EU escape its “hub and spoke” relationship with the United States and establish the requisite “strategic autonomy” to maintain trade and investment relations with both superpowers? Will China’s rise serve to consolidate Atlanticism or lead to its final act?

II. GERMAN PRIMACY

It is impossible to overstate Germany’s—and hence the EU’s-- dependence on both the United States and China as export markets as well as sites of foreign direct investment. “Export mercantilism” has been the central organizing principle of Federal Republic’s foreign policy ever since World War II and

the German economy is distinctive among advanced capitalist countries by virtue of its structural reliance on foreign demand (Tilford, 2010. p.6; Germain, 2021).” Since the late 1990s German capital has pursued a strategy of relentless cost-cutting and austerity throughout the EU in support of this model. Crucial stages of German manufacturing and commodity supply chains have been relocated in central and eastern Europe. In contrast to the U.K, France, and the United States, Germany’s domestic manufacturing base has not been hollowed out by outsourcing, which has been carried out selectively to enable German firms to maintain international competitiveness even as the rest of Europe has been tethered to the fortunes of the German economy(IMF, 2013; Gross, 2013). These supply chains illustrate an “astonishing continuity in the basic structure of German capitalism (Germain, 2017).” Their size and significance indicate the vast scope of German control over the European economy, and that the time for dual Franco-German leadership in all spheres except rhetoric has passed (Cafruny, 2015; Cafruny and Talani, 2019). .

Germany accounts for approximately 25% of EU exports and 30% of European GDP. However, if the supply chains are taken into account, the figures are considerably higher (France Strategie, 2016). As discussed in detail below, this is further reinforced by Germany’s position as the central hub linking Russian natural gas to Europe, a position it has thus far maintained despite opposition from many EU member states, the European Commission, and the United States. The export mercantilist orientation has become more pronounced and qualitatively more significant in the context of the crisis of the Eurozone in which European growth rates lagged behind the United States and, especially, China, and more recently the Covid-19 pandemic in which German exports to China have increased. In 2017 Germany’s trade surplus was 234b euros (compared to China’s 390b euros and Japan’s 140b). In 2019 Germany’s 30 largest corporations derived 79% of their revenues from abroad, compared to revenue shares of 50-60% for France, the UK, and USA (Oertel, 2020). . The undervalued (for Germany) euro has of course underwritten the extraordinary increase in its export ratio from 26 per cent of GDP in 1998 to 46 per cent in 2016), facilitating an overall export surplus of approximately 8 per cent. For many years Germany has run the world’s largest current account surplus. 50% of DAX companies sell more in the United States than in the EU, including Deutsche Telekom, Siemens, and BASF (Sommer, 2018).

In 2019 German firms exported 100b euros worth of goods to China, more than half of EU exports. China is the largest market for numerous German firms, including BMW, Volkswagen, and Infineon. While harming the U.S. economy, tariffs would gravely damage the entire European economy that now appears to be slowing and would strike at the heart of the German economy. In 2018 Germany recorded the largest trade surplus (\$299 billion; 7.8% of GDP) in the world for the third successive year, with a \$49

billion surplus with the United States (IFO). By contrast, the volume of France's exports to the United States is less than one-third of that of Germany, and its trade balance with the U.S. is roughly equal. France has less to lose from a trade conflict, but Berlin determines the Commission's trade policy. In December 2018, Indeed, in German auto industry executives conducted separate discussions on trade in the White House (Cafruny and Kirkham, 2020).

As early as 2016 Germany raised concerns about the sale of Germany technology firm Kuka to Chinese investors (Deutsche-Welle, 2016). It prompted calls to develop an EU foreign investment screening mechanism and also to reduce regulatory restrictions on European monopolies. However, reflecting Berlin's *de facto* leadership, EU policies towards China have until recently been less confrontational than those of Washington even as German companies have been subjected to increasingly stringent oversight by the CCP and China has made inroads into the CEE through the BRI and the 17+1 grouping. The EU conspicuously avoided joining the United States and the UK in condemning human rights violations and challenging China's activities in the South China Sea. As late as 2020 German Economy Minister Peter Altmaier insisted that German still believed in "transformation through trade" with China (Karnitschinig and Vela, 2020).

This began to change in 2019. The Federation of German Industries (BDI) conceded that China would not become a liberal, market-driven economy. It recognized that German industry is gradually losing its technological lead over Chinese rivals, which have become more sophisticated as a result of massive investments in domestic research and development as well as technology transfers. At this point the European Commission designated China as a "strategic competitor" and "systemic rival." Declaring that NATO was "brain dead" Emmanuel Macron called for EU "strategic autonomy" and the formation of a "European army" that would "protect us against Russia, China, and even the United States." In May, 2019 France declared its intention of becoming an "inclusive and stabilising mediating power" in the Indo-Pacific region and in September 2020 held a first trilateral dialogue of foreign ministers with Australia and India. In September, 2020 Germany signaled its own interest in the region, advocating defense cooperation with Singapore, Australia, Japan, and South Korea (FRG, 2020).

The victory of Joe Biden in November, 2020, with its promise of more transatlantic cooperation, has reinforced the EU's reassessment. In the final months of 2020 a torrent of position papers, national, and EU proposals emerged, all with more or less the same theme of transatlantic reset, echoed by the incoming U.S. administration. Even so, important actors in Germany refuse to embrace decoupling, especially in the context of Covid 19 during which time China has driven Germany's export growth. In

December, 2020 after seven years of negotiations China and the EU concluded a Comprehensive Agreement on Investment (CAI) that clearly expresses German power and preferences.

Strategic Autonomy?

Questions concerning European “sovereignty” are as old as the EU itself, but until now they have been asked in the context of American hegemony, albeit increasingly precarious (Ryner and Cafruny, 2017). The crisis of the Bretton Woods order starting in the late 1960s triggered a first phase of rivalry between the United States and Europe in both the economic and political spheres. Was, in fact, such a new center of power—a “European challenge” emerging? Or was the EU destined to remain subordinated to a still-consolidated U.S. hegemony?

From the perspective of 2021 there can be little doubt that dreams of European autonomy were unrealizable. Notwithstanding the considerable institutional and constitutional development of the EU and contrary to the expectations of official Europe and its academic acolytes, the neoliberal project that started in the 1980s greatly reduced national prerogatives without giving rise to the pan-European polity. As inherent contradictions of the neoliberal project intensified in the context of the global crash of 2008 they gave rise to the Eurozone crisis (Ryner and Cafruny, 2017). Here once again, the leadership of the Federal Reserve in both 2008-10 and 2020 (Tooze, 2020a,2020b) illustrated Europe’s continuing subordination to the United States. If, therefore, Europe has thus remained tethered to the Atlanticist umbilical cord, does China’s rise and Europe/Germany’s demonstrable dependence on its market presage a different outcome?

The overall weight of Europe/EU in global affairs is decreasing. Brexit has deprived the EU of the world’s 5th largest economy and second largest net contributor to its budget. When the Treaty of Rome was signed in 1957 the present member states accounted for 12% of the world’s population; the figure is set to decline to 4% by 2060. The EU’s share of global GDP is projected to decline to less than 20% by 2030. Nevertheless, if the EU’s global footprint is shrinking, the transatlantic space continues to represent by far the most important region in the world economy, a measure of the size and global centrality of the U.S. and North American economy. It accounts for one-third of global GDP and one-half of global personal consumption. U.S. foreign affiliate sales in Europe in 2016 of \$3 trillion were greater than total U.S. exports to the world. 60% of U.S. imports from the EU comprised intra-firm trade, a much higher figure than that for the Asia-Pacific nations. In 2017, 64% of U.S. FDI outflows went to Europe, with just 16% to the Asia Pacific region. Europe accounted for 70% of the \$3.7 trillion invested in the U.S. in 2016; its total stock of investment in the U.S. is more than 4 times that in Asia. The

transatlantic economy accounts for 80% of weapons-related spending and 90% of research. (Hamilton and Quinlan, 2018). Europe's and Germany's massive dependence on the United States is reinforced by the continuing primacy of the dollar, which is being instrumentalized in novel and increasingly harsh ways in order to slow China's rise and preserve U.S. Atlanticist primacy. Enabled by the continuing supremacy of the dollar as international reserve currency the declining but still formidable U.S. superpower is increasingly resorting to sanctions as a method not only of geopolitical but also commercial enforcement.

III. GEOECONOMICS OF SANCTIONS

European countries have become increasingly exposed to various U.S.-led sanctions regimes, either acquiescing to them, as with joint U.S.-EU sanctions enacted in the wake of Russia's annexation of Crimea in 2014 and support for the rebellion in the Donbass, or caught in the crossfire, as a result of the threat of secondary sanctions against Russia starting in 2017 and against Iran following the United States' unilateral withdrawal from the Joint Comprehensive Plan of Action (JCPOA) in May 2018. In these and other cases, the sanctions are highly de-stabilizing for business relationships and cause significant harm to the economic interests of European (and other) states.

Seeking to minimize the economic cost of sanctions—and also to preserve rules-based, multilateral agreements—EU and national leaders have appealed for the construction of a "sovereign Europe" based on a concept of "strategic autonomy" (Borrell 2020). Denouncing Washington's deployment of secondary sanctions against European companies EU officials have vowed to establish the euro as an international reserve currency (Cafruny and Kirkham, 2020). These bold statements indicate the strong rhetorical support for greater European autonomy from the increasingly beleaguered and erratic American superpower. Yet, what is the basis for such autonomy? How does the European response accord with Europe's aspirations?

Europe, the United States, and the Joint Comprehensive Plan of Action

Since the 1979 Revolution when the U.S. banned Iranian imports and froze \$12b of Iranian assets in response to the 'hostage crisis', a succession of anti-Iranian sanctions have been carried out by the United States. These had a unilateral character until 2007 when the UN Security Council passed Resolution №1747 ordering the suspension of uranium enrichment by the Iranian government.

At the outset the European states were 'passive observers' of the American sanctions and they continued doing 'business as usual' with Iran until the risk of secondary sanctions emerged in 2010

(Cronberg 2018). The EU then agreed to ‘targeted’ sanctions on Iran as the result of U.S. pressure. Secondary sanctions were further expanded in 2013, enabling the United States Treasury not only to punish targeted states, but also to harm competitors in global markets. Recognising these risks, the EU facilitated negotiations within the working of the P5+1 group at the initiative of Barack Obama. This led to agreement in 2015 on the landmark Joint Comprehensive Plan of Action (JCPOA) that secured Tehran’s commitment to halt its nuclear program and open itself to international inspections in return for the lifting of sanctions (Cronberg 2018).

In May 2018, President Trump unilaterally withdrew from the JCPOA, complaining that it did not curtail Tehran’s ballistic missile program or prevent Iranian military intervention in Syria, and that it included a sunset clause after which Iran could move quickly towards a nuclear weapons program. At the outset, Europe’s attempt to sustain the JCPOA against American opposition represented one of the most serious rifts in the transatlantic relationship since World War Two as the EU sought actively to work against the United States—and alongside Russia and China—on an issue of crucial strategic importance. The JCPOA is an emblem of Europe’s commitment to multilateralism, and its preservation serves as a fundamental test case of European autonomy and power with respect to global governance. Not only is Iran an important market for numerous European firms, through the JCPOA, but European countries have also sought to reduce political conflict and instability within the Middle East and thereby avoid further refugee flows.

Seeking to preserve the JCPOA, the remaining members of the P5 have pressed Iran to continue to abide by its restrictions in order to deny the United States and Israel a pretext for military intervention. At a meeting in New York in September 2018 chaired by EU High Representative Federica Mogherini, China, France, Germany, Russia, and the UK issued a joint statement recognizing that Iran was in full compliance with the JCPOA and reaffirming their continued support for the agreement (EEAS 2018). Noting that “the lifting of sanctions, including the economic dividends arising from it, constitutes an essential part of the JCPOA,” the participants called for updating the EU’s Blocking Statute and extending the European Investment Bank’s external lending mandate to Iran. The statement specifically called for the establishment of a Special Purpose Vehicle (SPV) to facilitate payments for Iran’s exports and imports, thereby enabling Iran’s energy exports. However, U.S. officials responded with fury. Washington imposed the first wave of sanctions in August 2018 with the aim of preventing Iran from gaining access to dollars and blocking its trade in autos, airplanes, steel, and aluminum. The United States implemented a second and more comprehensive round targeting Iran’s energy sector in November 2018.

At the outset, the EU3 (along with Russia and China) declared their intention to save the accord and encouraged European firms to continue to trade with Iran. However, European firms were unwilling to risk sanctions and trade with Iran was quickly disrupted as all large corporations pulled out of the Iranian market. The EU then established the Instrument in Support of Trade Exchanges (INSTEX), a special purpose vehicle headquartered in France. Designed to function through barter, INSTEX would theoretically allow Iran to buy and sell to Europe without the use of the dollar, thus shielding European firms from U.S. sanctions. However, Washington threatened to sanction European firms using INSTEX and the special purpose vehicle would not be utilized until 2020. While at the outset the promise of INSTEX encouraged Iran to observe the agreement, EU-Iran trade declined by 75% in 2019. Iranian exports declined by 94% (Euractiv 2020).

As EU-Iran trade diminished Iran gradually reduced its commitments to the JCPOA. At the end of 2019 six European countries—Belgium, Denmark, Finland, Netherlands, Norway, and Sweden joined INSTEX. At the beginning of 2020 following the U.S. killing of Iran's General Soleimani Tehran announced that it would no longer maintain limits on enriching uranium although still allowing inspections and would reverse this decision provided the EU could resume trade. France, Germany, and Britain under strong U.S. pressure triggered the Dispute Resolution Mechanism of the JCPOA, although declaring their intention to save the accord. The United States enacted additional sanctions on 10 January across multiple sectors of the Iranian economy including manufacturing, construction and mining. Finally on 31 March INSTEX concluded its first transaction, for 500,000 euros of medical aid from Germany, exempt by virtue of humanitarian aid from U.S. sanctions (Deutsche-Welle 2020). The experience of INSTEX reinforces the limitations of the EU and Iranian dissatisfaction. More transactions are likely under the INSTEX barter system, but these will be limited to humanitarian aid. As the five-year arms embargo under the terms of the JCPOA expires in October and the United States threatens further sanctions despite having withdrawn from the Treaty (TasnimNews 2020), and the potential for a UN Security Council crisis.

While the U.S. withdrawal from the JCPOA and the enactment of harsh sanctions that have intensified the impact of the pandemic on Iran have obvious geopolitical motives there is also an important geo-economic dimension. As noted above, EU-Iranian trade and investment linkages had increased significantly. By 2018, EU-Iranian trade had increased substantially to more than 20 billion euros (Brüggmann 2018). German companies account for 60% of EU investment and 40% of total industrial equipment in Iran. French oil giant Total and Anglo-Dutch Shell have made significant investments in Iran, including in the LNG sector. Airbus was scheduled to deliver more than a hundred planes worth \$19b to

Iran Air. Unilever, Renault, Henkel, and Peugeot have carried out significant investments in Iran. Boeing's loss of a \$20 billion contract was, by contrast, exceptional (Washington Post, 2018). In 2017 U.S.-Iranian trade was just \$200 million. At the same time, sanctions on the Iranian oil and sector reduced Iran's crude oil exports from 2.5 million barrels per day in 2018 to less than 200,000 in 2020 (CNBC 2020) representing a significant windfall to the fledgling U.S. fracking sector (Jaffe 2018; Arab Weekly 2018).

Nordstream 2: the United States and European Energy Autonomy

On June 18, 2015 at the St. Petersburg Economic Forum an agreement was signed between Gazprom Russia and a consortium of German (BASF and E.ON), French (ENGIE), Anglo-Dutch (Royal Dutch Shell), and Austrian (OMV) companies on the construction of NordStream-2. The project envisions a pipeline with a capacity of 55 bcm that would run directly from Russia under the Baltic Sea to Germany, along the same route as the existing (NordStream-1) pipeline. If the project can be completed it would reduce Ukraine's role as a transit corridor and thereby deprive Kiev of annual transit fees. It would concentrate two-thirds of Russian gas exports to Western Europe in one route, and consolidate the position of Germany as the central hub for resale of Russian gas exports throughout Europe.

Like its predecessor, NordStream-2 has elicited widespread hostility from the European Commission as well as from Poland, Italy, Bulgaria, the Baltic states, and Slovakia, which are demanding more "solidarity" from Germany. In response to a Polish government determination that European members were violating anti-trust laws through their collaboration with Gazprom, the five partners withdrew from the consortium and Gazprom approved the termination of the shareholders agreement in November, 2016. Nevertheless, the companies declared their continuing support for the project and at the end of 2016 firms from throughout the EU were bidding on the construction project, now entirely financed by Gazprom. Because the pipeline runs along the same route as the original NordStream-1 and connects with a non-member state of the EU, the project arguably does not contravene the anti-monopoly restrictions of the Third Energy Package although the German energy regulator in May, 2020 called this into question (Euractiv 2020). NordStream-2 has enjoyed strong support from German industry and the German state.

U.S. opposition to the NordStream-2 pipeline arguably reflects geopolitical concerns—a longstanding opposition to European energy dependence on Russia dating back to the 1970s and reprised with the construction of Nordstream-1. However, opposition also clearly reflects commercial motives. Significant technological innovations in the form of hydraulic fracking and horizontal drilling have disrupted longstanding global energy alliances and arrangements. They have already enabled the United States to

become the world's largest producer of natural gas, overtaking the combined output of Russia and Saudi Arabia in 2015. In 2013 the United States became the world's largest producer of hydrocarbon petroleum and is projected to achieve energy self-sufficiency by 2030. Aided by the expansion of the Panama Canal, the United States became a net energy exporter by the end of 2017.

However, the supply of American LNG to Europe is constrained by price as well as by the limited infrastructure on both sides of the Atlantic. In 2015, the United States had no LNG terminals for supply of large volumes of liquefied shale gas to EU. Six terminals for the period from 2016 to 2020 with total export capacity of 118 billion cubic meter of natural gas per year have been commissioned, with an additional 54 such terminals under consideration. At the present time most U.S. LNG is bound for Latin American and Asia. Even if total export capacity and energy consumption in Europe remain the same the United States will not be able to match Gazprom's prices. The United States has also sought to develop European gas resources through exploiting shale reserves and hydrofracking on the European continent. Major U.S. companies have made substantial investments throughout Europe, and especially in Ukraine and Poland, but these have proved disappointing while also provoking popular resistance on environmental grounds.

Thus an important obstacle for US gas exports to Europe is their relatively low profitability. The most attractive and fast-growing market for LNG supply is Asia, in particular Japan, China, and South Korea, where the average price per cubic meter of natural gas is about 100 US dollars higher than in the European market. American producers are eager to secure a presence in the Asian market and many of the new LNG export terminals are reserved for Asia. Therefore, the promotion of US energy supply does not at the present time make economic sense unless favorable political conditions for establishment of EU-US energy partnership can be sustained in order to ensure competitive advantage of US supplies.

The European LNG import infrastructure is also at the developmental stage. By 2016 the countries that had regasification terminals included UK, France, Spain, Italy, Belgium, Portugal and Greece, with limited infrastructure for re-export of surplus natural gas to other EU countries. However, the construction of LNG infrastructure is underway in Poland and the Baltic states. In June, 2016 the first commercial delivery of LNG from Qatar reached Poland's new Swinoujscie terminal on the Baltic Sea. This terminal, together with a proposed pipeline from Norway, would greatly reduce Poland's reliance on Russian natural gas. In October, 2014 the first regasification terminal was opened in Lithuania. Finland and Estonia have entered into agreement on the establishment of joint project relating to construction of terminals in both countries. The three Baltic states have agreed to set up a single gas market which will eventually be linked to Poland and Finland while excluding Kaliningrad, where Gazprom operates a storage facility.

Washington has welcomed these new constructions and developments, which constitute as yet the only indirect consequence of promotion of energy dialogue between the United States and the European Union.

The situation with respect to NordStream-2 represents in microcosm the complex balance of intra-European and transatlantic geo-economic relations. Ever since the 1970s the Federal Republic has pursued energy ties with the USSR/Russia. NordStream-2 remains a “red line” for German industry, whose competitiveness would be diminished if compelled to import more expensive LNG from the United States, and hence the German state. This was confirmed by Berlin’s decisive response in 2019 to Emmanuel Macron’s threat to bring the project under the Commission’s control unless France obtained an increased Eurozone budget (Gotev 2019). When it became clear that the European Commission was unwilling to block the pipeline sanctions were imposed in December 2019 as part of the National Defense Authorization Act under the sponsorship of Senator Tom Cruz of Texas, the largest producer of natural gas in the United States. Notably, sanctions were not directed against the European companies of the consortium, but only against the Swiss-based pipeline company Allseas Group, which immediately pulled out of the project. Germany and Russia have already made significant concessions to Washington: Germany has constructed two LNG terminals and Russia has signed a long-term transit agreement with Ukraine. At the same time Washington and Kiev are considering the possibility of storing U.S. LNG exports in Ukraine in the summer until higher prices arrive in the winter (RFERL 2020). Although the pipeline is close to completion, further sanctions were authorized in December 2020 in the Defense Bill (U.S. Congress, 2020).

Technological Spheres of Influence?

In May, 2019 the United States Department of Commerce banned U.S. exports to Huawei and lobbied allies to ban Huawei from their emergent fifth generation wireless networks. Citing Chinese company law that endows the government with ultimate authority, it asserted that Huawei constitutes a threat to national security and privacy. Given its size and technological leadership, Huawei’s expansion represents a grave commercial threat to U.S. technological predominance, regardless of its connections to the CCP. Huawei has become the dominant provider of 5G equipment worldwide. Europe is “the primary battleground” in the war between Washington and Huawei (Doffman, 2019). Although Nokia and Ericson are Huawei’s main rivals, Europe as a whole has been heavily dependent on Huawei, and a ban would result in massive costs (Morris, 2020). No U.S. company is a close competitor, but U.S. firms control the technology used in the manufacture of semiconductors that are essential to Huawei.

Washington's struggle to contain Huawei's growth and penetration into Western markets, has reflected both the complexity of global high-technology value chains and the constraints on U.S. economic power deriving from its deep interdependence on China. Japan and South Korea initially complied with Washington's demands. However, citing a lack of evidence for U.S. allegations of cyber espionage and recognizing the sizeable cost benefits most European countries sought initially to continue doing business with Huawei. When the United Kingdom initially rejected U.S. claims that Huawei represented a security threat and declared its intention to continue allowing Huawei participation in its 5G networks Ren Zhengfei, the company's founder and CEO, compared the decision to the Soviet Union's victory at Stalingrad (Strumpf, 2020).

Recognizing the ineffectiveness of existing diplomatic and coercive efforts, in May, 2020 the Trump administration opened up a new and far more provocative offensive in its attempt to contain China's high-tech challenge. Through the State Department's "clean network program" it developed a "exclusionary geopolitical strategy" designed to decouple firms from China and establish a bifurcated digital economy (Mayer, 2020). It tightened its own export controls on Huawei and enacted secondary sanctions on all companies selling computer chips to Huawei if the product has been manufactured or designed using U.S. technologies. Immediately following this announcement Taiwan Semiconductor Manufacturing Company (TSMC), the world's largest chipmaker, halted new orders from Huawei. Prior to the announcement TSMC announced plans to build a \$12 billion chip factory in Arizona (Ting-Fang and Li 2020). This "nuclear option" may have far-ranging impact on Huawei and indeed China's technological future. The new U.S. rules "push the world into uncharted territory" (Goldman 2020). In December, 2020 sanctions were also imposed on the Chinese chipmaker SMIC, further tightening the noose on Huawei. China retains the option of retaliating against U.S. companies including Apple, Qualcomm, Boeing, and Cisco as well as European companies, but it has not yet exercised that option.

Reflecting the determination of most member states to continue to allow Huawei to develop their 5G systems the European Commission resisted U.S. pressure to impose a blanket ban. However, as the worldwide economic coercive U.S. campaign intensified, most European countries, including the UK and France, have capitulated by imposing legal or *de facto* exclusions. This is so even as Washington has apparently weaponized its supply chains by extending waivers that allow U.S. corporations to supply Huawei and thus seize market shares from their European counterparts (Yang, 2020). Germany has remained something of an outlier: However, notably it has moved gradually to accommodate the United

States while retaining its options by imposing a “dual track” approval process that could allow Germany to circumvent the ban in the face of Chinese retaliation (Morris, 2020).

IV. CONCLUSION

The proliferation of U.S. extraterritorial or secondary sanctions illustrates vividly the still-formidable structural economic power of the United States based on the dollar supremacy, technology, and military force. It is not clear how long this power will last. With respect to technology, the EU has established a “European Initiative on Processors and Semiconductor Technologies through the European Commission to wean European firms from U.S. technology (Yang, 2020). The Digital Services Act (DSA) and Digital Markets Act (DMA) have been proposed by the Commission to regulate big tech platforms, but it is doubtful that they can spearhead an indigenous European rivals (Economist, 2020). Similar but far more ambitious initiatives are under way in China.

Notwithstanding the short-term costs of Washington’s technology war it is unlikely that China’s long-range ascent can be contained: “the strangulation of Huawei could mark the peak of American power over the world’s tech companies” (Miller, 2020). The strategy of U.S. strategy of containment is dangerous and self-defeating, for itself and for the world: Connected to a project of neoliberal consolidation, it does not allow for a genuine (re)industrial strategy; redistribution of wealth and income; or adequate funding for infrastructure, research and development, and general education.

In December 2020 after seven years of negotiations a Comprehensive Agreement on Investment between the EU and China (CAI)was signed (European Union, 2020). The agreement, which has yet to be ratified by the European Parliament, allows Chinese firms to access European sectors. In turn, it provides for broader—although not unlimited—access to China’s markets, including financial services. The CAI also reflects German leadership, which refused to allow the agreement to be derailed by France’s human rights concerns or Poland’s insistence on prior consultation with the United States. However, it is too early to say whether the CAI represents a substantial transformation; much will depend on the implementation, not least with respect to China’s compliance with I.L.O. standards (SCMP, 2020). At the same time, the broad access to financial markets—a centerpiece of the CAI—essentially reprises the access given by Phase 1 and Wall Street.

The CAI does not, however, change the fact of Europe’s vulnerability in the broader triangular relationship in which it is by far the weakest link. Notwithstanding France and Germany’s largely symbolic entry into the Indo-Pacific region and French calls for an EU “strategic compass,” EU initiatives

such as the European Defense Fund (EDF) and Permanent Structured Cooperation on Defense and Security (PESCO) designed to exclude non-European firms and foster the development of an autonomous military industrial complex are very modest, hindered by intra-European divisions and strongly resisted by Washington (Kelly, 2019), which seeks to maintain primacy over an integrated and highly lucrative transatlantic armaments market dominated by American firms. The EDF provides for \$13 billion for 2021-27 compared to a U.S. military budget exceeding \$740 billion annually. Germany has made it clear that its primacy in Europe is exercised within the framework of NATO and the integrated transatlantic economy.

Just as German power played a key role in the CAI, so it has been the central factor in determining Europe's response to U.S. secondary sanctions. As noted above, Germany has struggled to retain its freedom of action with respect to Huawei even as it has sought to placate Washington through a policy of ambivalence. Notably, by calling for a "firm reaction...with sanctions if necessary," Germany has also abandoned its previous position and signaled strong support for U.S. policy towards Iran (Mamedov, 2020). The United States and Germany also appear to be moving towards accommodation over Nordstream 2. U.S.-German rapprochement concerning Nordstream 2 also appears likely as the new sanctions on the pipeline's construction contain provisions for exemptions and consultation with the EU (NDAA, 2020). Thus Germany's energy "red line" is respected in the context of an increasingly precarious consolidation of Atlanticism.

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