

# Pushing for an Economic Level Playing Field



“How do we create a level playing field with an ever more challenging, confrontational China? And how do we deal with an ever more aggressive and repressive Russia? Answering these questions will be central to the future of our alliance.”<sup>13</sup>

Heiko Maas, German Foreign Minister, Inauguration of the Fritz Stern Chair at Brookings, March 9, 2021

## The Stakes

Under President Xi Jinping, China has come to embrace a neo-mercantilist techno-nationalism and turned its back on free market economy norms and principles. Domestic market reforms that would have levelled the playing field with OECD economies have slowed down and are increasingly embedded into wider Chinese efforts of bolstering party-state capitalism.<sup>10</sup> At the same time, China’s economic integration with North America and Europe in terms of trade, investment, and capital markets is at an all-time high, and many Western corporates are still doubling down on economic growth and research and development (R&D) opportunities in China. For many North American and European industries, scaling back economic engagement with China, let alone full-scale decoupling, would be difficult and costly.<sup>11</sup>

As they cannot rely on Beijing to reverse course on its domestic and global economic policies and practices, transatlantic partners must join forces and shape the economic environment in which they interact with China in ways that are favorable to European and American interests. To protect free market principles at home and abroad, Europe, the US, and Canada must seek greater alignment on key matters of global economic governance, such as the future of the World Trade Organization (WTO) as well as alternative or complementary plurilateral arrangements. Moreover, with the aim of greater reciprocity in bilateral economic relations in mind, transatlantic partners should align measures to protect the level playing field at home, as Chinese actors expand their footprint, and to support champions of competitive neutrality in China. As China challenges the existing global economic order and rules, transatlantic engagement, and cooperation with like-minded free market economies around the globe also matters more than ever. Recent commitments by the G7 countries to pursue collective approaches to challenging Chinese non-market policies and practices<sup>12</sup> rightly also extend to collaborating with free market economies around the world. This will help to ensure that individual countries, which might be in less of a position of strength vis-à-vis China than the US or Germany, do not need to confront Beijing on their own.



“We must constrain China’s economic predation by partnering with our allies and friends to deny China free access to our markets unless it agrees to abide by global rules of fair trade.”<sup>14</sup>

Mitt Romney, US Senator,  
Member of the Foreign  
Relations Committee,  
The Washington Post,  
April 1, 2021

### The State of Play

The US, Canada, and Europe have long attempted to level the playing field with China, with concerns and interests being largely in alignment: these efforts are aimed at (1) improving the position of foreign commercial actors operating in China vis-à-vis Chinese competitors, e.g., with a view to market access, subsidies, and IP protection, and (2) curbing the spread of unfair Chinese economic practices, such as state-funded and -sponsored takeovers in North America and Europe. However, neither efforts of the US, like the Phase I Deal, nor of the EU, like the political agreement on the Comprehensive Agreement on Investment, seem to be capable of fundamentally changing the trajectory of Chinese economic policy and conduct.

However, there have been a range of level playing field issues between the US and the EU themselves that have distracted them from jointly tackling level playing field issues North American and European companies face in China. These have included disagreements over data privacy standards as well as global corporate taxation. The existence or mutual threats of imposing (even higher) tariffs on European goods, such as steel and automotive products, by the US or on US goods, such as motorbikes or whiskey, by the EU, and the long-standing Airbus-Boeing dispute over subsidies have also hampered Allies’ ability to pursue a joint level playing field agenda vis-à-vis China. Steps taken by both sides to resolve these disagreements, like the Airbus-Boeing moratorium until 2026 or the G7 agreement on global tax reform – if it can garner bipartisan support in the US<sup>15</sup> – could help to enable transatlantic partners to engage more robustly with China on level playing field issues both inside and outside the WTO. They might also pave the way for joint efforts to level the playing field vis-à-vis China in third countries, which have so far also ranked rather low on the transatlantic agenda but which might gain momentum as a topic of greater joint interest on the back of efforts to implement the Build Back Better World (B3W) initiative.<sup>16</sup>

### The Priorities

The US and Europe must engage in a long-haul effort to push China to make and keep commitments on critical aspects of a level playing field, such as market access, subsidies, intellectual property protection, and government procurement rules. However, transatlantic partners might find that rather than engaging with China directly, over the next six to 18 months, leveling the playing field in relation to China will yield more promising results, including with China: such efforts include (1) resolving economic disputes between the US and Europe and strengthening the joint outlook on China's economic trajectory as a basis for engaging China more robustly; (2) building an even stronger rapport with like-minded partners on matters of global economic governance as a basis for a more robust engagement with China and (3) coping with the fallout of unfair practices by Chinese economic actors in third countries. Specifically, joint transatlantic action over the next six to 18 months should revolve around a set of realistic deliverables, which fall broadly into four areas:

#### Resolving transatlantic economic disputes to enable more robust cooperation in dealing with China

The European Commission and relevant US government departments should follow up on the recent G7 agreement on global taxation as a basis for further negotiating relevant rules and processes with China in the G20 context. This is particularly urgent as China has shown growing eagerness itself to set the rules of the game in this space. Clearly, such steps must be designed to ensure broad political support in the United States and European countries, both on substantive grounds but also to ensure any such agreements are lasting and reliable.

At the same time, the moratorium on tariffs in the long-running dispute over subsidies to Airbus and Boeing should lead to a permanent resolution of this issue and free up bandwidth to deal with unfair competition from China's subsidies for its COMAC commercial airliner.

Washington and Brussels should also step up consultations on a number of issues that may not be fully addressed over the next 18 months but are integral to a joined-up position in dealing with China, such as embracing comparable standards for the review of foreign investments and the updating of export controls.

### Promoting a more joined-up strategic outlook on China's economic trajectory

The governments on both sides of the Atlantic should encourage the formation of a transatlantic CEO advisory group on China. Jointly launched by the US president and the EU Commission president, ideally with buy-in from Canada and other interested non-EU European countries, the group would help to bridge the gap between China discussions in the political and business sphere and send a strong signal to Beijing that level playing field issues are at the top of the agenda from all angles.

The American and European Chambers of Commerce in Beijing should launch a joint North American and European tracker on the business environments in strategic markets in China. This could take the form of a joint regular report and also involve participation by other OECD chambers in the future.

### Reforming the WTO and working on plurilateral initiatives

The US, Canada and Europe need to agree that the WTO requires fundamental reform, if it is to be relevant, and to develop a joint agenda, with other free market economies, to deliver such reform. Transatlantic partners should seek pragmatic steps that can revive the WTO, such as finding ways to unblock the impasse at the appellate body, while focusing on making the necessary preparations for the 12th WTO Ministerial Conference that will take place in Geneva in late 2021. In this respect, coordination efforts undertaken under the current UK Presidency of the G7 should be pursued with even greater urgency.

In order to make better use of the WTO with a view to China's unfair trade practices, transatlantic partners should not only focus on institutional reform. They should also jointly bring a group of cases to the WTO that fulfill a single level playing field goal in relation to China, e.g., through "strengthening competitive neutrality", to which other WTO members can then sign up to on a case-by-case basis.

As agreed by G7 nations at the June 2021 summit, transatlantic efforts within the WTO should be complemented by "second track initiatives," such as a plurilateral agreement among the broadest possible coalition of WTO members on state subsidies.

### Leveling the playing field with China in third markets through cooperation on the ground

Europe, Canada, and the US should intensify efforts to jointly address the negative implications of unfair Chinese competition in third markets. This will require the US, Canada, and Europe monitoring and pooling intelligence on the ways Chinese entities propel unfair competition in third markets.

North American and European governments and trade agencies should also develop and deliver joint messages that their economic engagement – and that of their companies and citizens – with third countries is ultimately tied to free and fair market economy principles being upheld by these third countries.

US, Canadian, and European embassies on the ground, investment banks, and development and trade agencies should also develop and implement joint programs aimed at encouraging and supporting recipient countries to embrace free, rules-based market environments. Activities implemented towards this end should aim at strengthening the rule of law, supporting public sector oversight capacity building, specifically as pertains to curtailing corruption, and empowering civil society actors engaged in monitoring labor and environmental practices.