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Europe in the midst of China-US strategic economic competition: What are our options?

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INTRODUCTION

As the European Union was recovering from the deepest economic crisis since the introduction of the euro, a number of new challenges popped up. First and foremost, British citizens decided in favor of the UK leaving the European Union in June 2016, and a growing number of countries saw anti-European and/or populist parties increase their representation in national parliaments – in Italy's case, even going so far as to form a government.

Beyond those internal problems, another external shock has hit the EU in 2019, namely the trade war between the United States and China. US-led trade protectionism against China affects the European Union in several ways. First and foremost, it puts multilateralism in trade relations at risk and, in particular, the proper functioning of the WTO (Jean *et al.* 2018). In addition, it opens the door to additional trade protectionism. This could possibly target the EU directly, as it sits on the largest trade surplus in the world. Third, trade measures taken by the United States against China, as well as China's retaliation, have indirect consequences for Europe. These can be positive for some sectors, as tariffs have allowed European exporters to obtain a comparative advantage over US exporters in China's market (Garcia Herrero and Xu 2019; Wolff 2018). This is also the case, although to a lesser extent, for EU exports to the United States, since they can replace Chinese exports targeted by US tariffs. The reason why the potential gains to be made are smaller are because Chinese and European products going to the US market are not as similar as European and US exports to China, once we exclude US agriculture and energy products exported to China. However, this positive scenario becomes more blurry when we consider the complexities of the global value chain, which can lead to increases in European costs of production due to third countries' import tariffs as long as they lie within Europe's production chain (Chiacchio 2018). This is without doubt the case with China. In addition to the potential losses related to the EU's participation in the global value chain, we cannot forget that the United States and China are very close to agreeing on a deal that could include a large increase in Chinese imports from the United States, which would surely divert exports to China away from Europe.

Given the above complexities, it seems important to analyze in detail what has happened so far in the US-China trade war and beyond, as I hold the firm view that trade is just one of the facets of a much more structural—and strategic—confrontation between China and the United States. Second, we analyze the EU's potential gains, at least at the sectoral level, from the trade measures the United States and China impose on each other. Finally, we review Europe's strategic options in a world that tends to be increasingly divided into two blocks (China and the United States).

The paper is divided into five sections. The first offers an account of the actions taken so far in the US-China trade war. The second evaluates such actions and the third looks at their impact on Europe. The fourth section looks at the EU's best strategy regarding the US-China trade war, and the fifth draws some general conclusions.

AN ACCOUNT OF US-CHINA TRADE PROTECTIONISM

From seemingly untargeted measures announced in early February for solar panels and washing machines (Table 1), the United States has moved to increasingly targeted action against China. The most obvious case in point was the announcement of an additional 25% import duty to be applied to USD 50 billion worth of imported goods from China based on China's infringement of intellectual property rights (Garcia Herrero 2018a). More importantly, about two-thirds of those import tariffs have been applied since the July 6. The speedy introduction of the announced import tariffs, without allowing for much time to negotiate a deal between China and the United States, shows the United States' resolve to move away from the *status quo* in terms of the functioning of the global trading system, at least as far as China is concerned. On that basis, China decided to retaliate with equivalent import tariffs on US goods.

Since then, the list of Chinese imports for which the United States aims to increase tariffs has expanded to an additional USD 200 billion. Thanks to a three-month truce recently reached on the sidelines of the G20 summit, the additional USD 200 billion in goods from China do not currently face a 25% import tariff, but rather only 10%. While the latest news seems to indicate that a deal will be reached and that no additional tariffs will be imposed on the USD 200 billion in goods targeted by the United States, other actions taken by the US administration, including export bans to China and even the weaponization of the US dollar through sanctions, etc., offers a much gloomier outlook on the future of US-China economic relations.

Table 1
US trade measures

Type of product	Solar panels/ washing machines	Steel / aluminum	Intellectual property (1,102 products valued at USD 50 bn)	Intellectual property (6,031 products valued at USD 200 bn)
Rules	Section 201 Import relief for domestic industries	Section 232 National security	Section 301 Intellectual property laws	Section 301 Intellectual property laws
Effective date	Feb. 7, 2018	Mar. 23, 2019	25% additional duty effective Jul. 6 for 818 products (worth USD 34 bn) included in the proposed list on Apr. 6, 2018, and 284 products (worth USD 16 bn) effective Aug. 23, 2018	Sep. 24, 2018, and increased to 25% on Jan. 1, 2019
Exemption	'GSP-eligible' developing nations[a]	Australia, Argentina, Brazil and South Korea[b]	Targeted at China	Targeted at China
Applied to China	√	√	√	√
Retaliation from China	N/A	Tariffs of up to 25% on USD 3 bn worth of 128 products including pork, fruit, nuts, and wine	25% duty effective Jul. 6 for 545 products valued at about USD 34 bn, and for 114 products valued at about USD 16 bn with no effective date announced	Tariffs on USD 60 bn worth of US imports
Truce agreed to negotiate				On Dec. 1, 2018 on the G20 sidelines, additional tariff from 10% to 25% was deferred for 90 days

Notes: [a] Philippines and Thailand are not excluded, even though they are GSP-eligible; [b] Exclusions from US steel and aluminum tariffs may take 90 days.

Source: Natixis; US government.

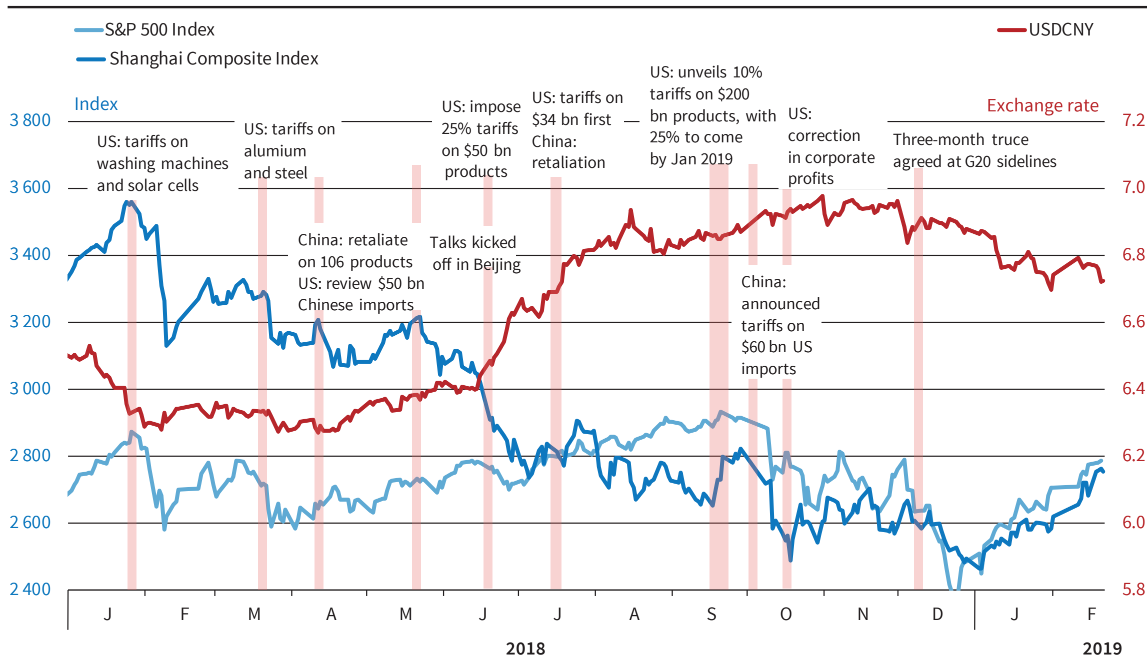
Going back to the trade war, China's ability to retaliate on trade is obviously more limited as it does not import enough goods from the United States to match the announced USD 200 billion in import tariffs from the United States, which explains why China's second batch of retaliatory measures have been more moderate, at least in size (USD 60 billion). These measures have also been put on hold thanks to the recently agreed three-month truce.

The market reaction so far seems to have been more negative for China than for the United States, at least as far as the stock market is concerned (Figures 1 and 2), which fallen by more than 25% in 2018. Furthermore, the RMB has depreciated quite substantially since the beginning of the trade war until recently, helped by the recently announced truce between the United States and China. One may wonder whether the market is overreacting to the potential consequences of such a trade war on China or, perhaps, underestimating the impact on the United States. So far, European markets seem to have remained comparatively more insulated from the US-China trade war except when the United States pointed toward protectionist measures against Europe directly, as was the case when the tariffs on steel and aluminum were temporarily lifted in spring and the threat of import tariffs on autos and auto parts was raised in early summer.

Moving on to the potential economic impact of the trade war, there have been attempts to estimate the direct impact of tariffs on trade and thus on growth. For example, the IMF in its latest World Economic Outlook has estimated that the Chinese economy would grow 1.6 percentage points less in 2019 and the US economy would grow 0.9 percentage points less in 2019 if the trade war were to be maintained in 2019. Also, the euro area's growth rate would slow by 0.4 percent in that scenario. The World Bank, on the other hand, has a much more benign scenario in its latest global economic prospects, as it has estimated that the Chinese economy will grow only 0.2 percentage points less in 2019 and the US economy will grow 0.2 percentage points less in 2019.

Overall, the reason for this relatively limited economic impact, especially when compared with the very negative market reaction, especially for China, is that such exercises take into account only the direct effects of tariffs on trade and not indirect effects on investment through a worsening of market sentiment, among many other channels. The impact on expectations and thus future investment is probably behind the market fears, especially in China, but also in the United States and, to a lesser extent, Europe.

Figure 1
Market reaction of US and China



Source: Bloomberg; Natixis.

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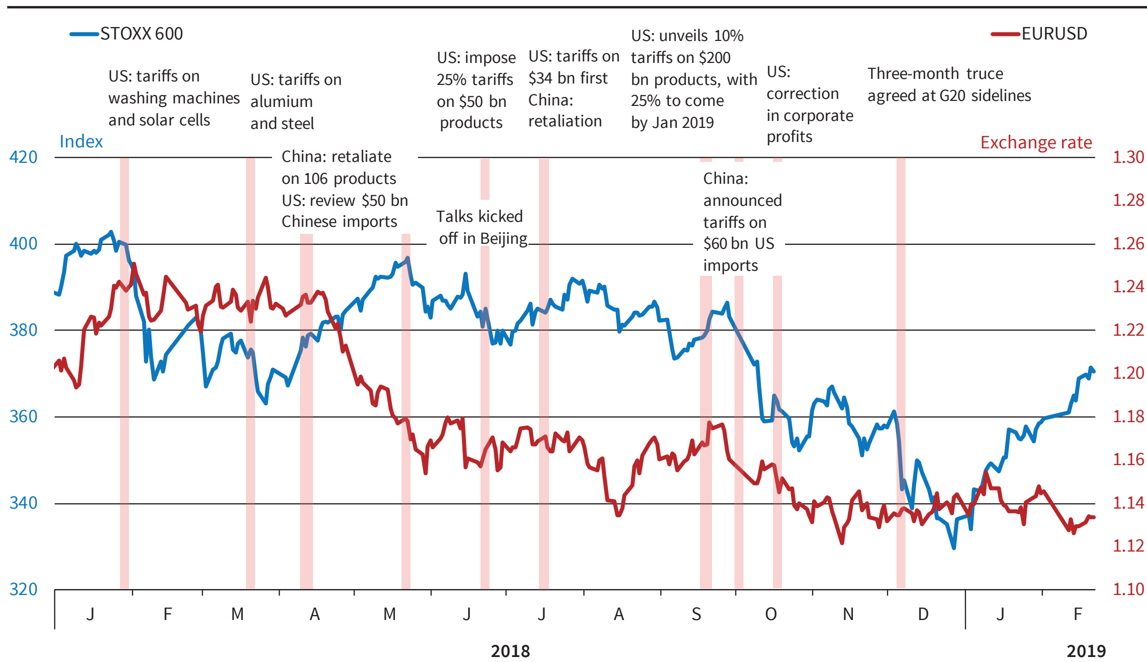
Figure 2
Market reaction of Europe



Source: Bloomberg; Natixis.

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The issue is that markets may be realizing that the risk is not only of protectionism, but much more than that, as the US' ultimate goal is to try to contain China. In fact, investors both in China and abroad are starting to worry that their investments may be completely blocked by the US or indirectly affected by the worsened relationship between China and the United States (Garcia Herrero and Xu 2018). Moreover, the multilateral trade order maintained by the United States is likely to be massively transformed. If that happens, the world will have to return to a much less free system for the flow of goods and services. Increasing uncertainties are the reason investors' sentiment has become more and more negative. One way to assess the potential impact of the ongoing trade war might be to take a more detailed look at the measures taken so far and analyze their rationale

so as to draw conclusions about their potential consequences down the road.

A DEEPER ANALYSIS OF THE TRADE MEASURES TAKEN BY THE US AND CHINA

The analysis of the sectoral composition of the goods targeted by the US administration would support the view that the relevant structural changes happening in the global economy are due to the trade war. The first round of US tariffs (USD 50 billion) was aimed at China's high-end exports with a view to containing China's technological advancement, with 7% of the products being very high technology products and 55% high technology products (Garcia Herrero 2018c). Some of the items included in the US tariff list are not yet exported from China to the United States, such as aircraft and aerospace products, or arms and ammunition, so the true intention of the US tariff is not to reduce the trade deficit with China, but to keep China from moving up the technology ladder. By including products that do not contribute at all to the US bilateral deficit with China, one could argue that the United States is revealing its preferences, at least indirectly, which are to hold China back from what it wants to become, namely a technological power that competes with the United States in high-end products.

Very interestingly, China appears to have realized quite quickly what the US intention was, as it rapidly modified its own retaliation list from a more balanced one that included high-end imports from the United States (including aircraft and aerospace products) to one more focused on low-end products, such as agriculture (especially soy) and energy. Such a strategy makes sense: imposing tariffs on high-end products that China does not yet produce or that cannot be sourced anywhere else would only hurt China because it would increase the price of products needed for China to achieve its ultimate objective, namely to move up the ladder of the value chain.

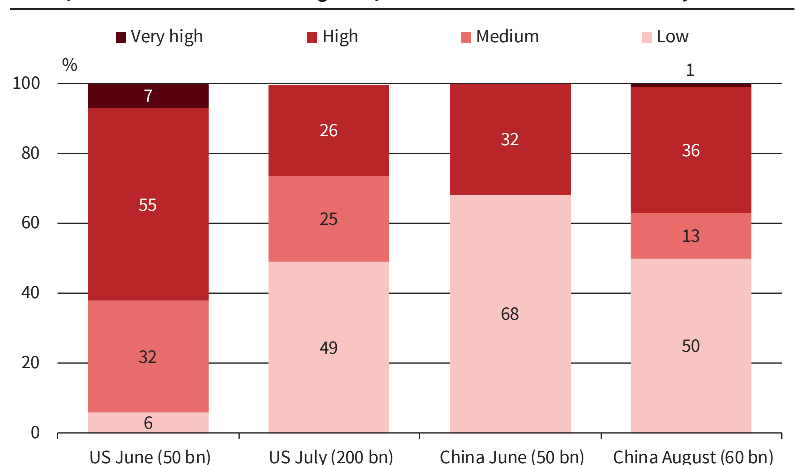
Moving on to the second set of import duties announced by the United States, namely that of USD 200 billion to be imposed by the August 30, the product composition seems to be very different. In fact, low-end products dominate but, interestingly, very few of them are final – especially consumer – products (just 22% of the total) but instead are intermediate products. One could interpret this second wave of import tariffs as a way to reshore the production of intermediate goods back to the United States (or at least to a third country that is not China) and reduce China's role in the global value chain. This interpretation of the second round of tariffs could have tangible implications for third countries that are now part of the value chain and have better economic relations with the United States (even a free trade agreement that insulates them from increases in US import tariffs across the board). This is the case with Vietnam and Mexico (if NAFTA is finally renewed). But the United States has silently removed some key products that would be expensive to substitute in terms of price increases for the end consumer (such as white goods, for which China has become the largest supplier by far).

For this second round of tariffs, China's retaliation is much smaller, at just USD 60 billion, due to the limitation of the total volume that China imports from the United States. Still, it accounts for a large portion of the total retaliation list that China can further extend. This round of retaliation includes all low, medium and high technology products, which shows a determined stance that the Chinese authorities will not retreat from the US threat. It also limits imports of more high technology products to China from the United States (Figures 3 and 4).

WHAT IS THE IMPACT ON EUROPE?

Based on the above (namely the structural nature of the trade war between the United States and China), the question to ask ourselves is how this may affect Europe. While a trade war can hardly have any winner in absolute terms, as trade is generally beneficial for global growth, there could be some comparatively worse or better outcomes depending on the country and sector. If the current dispute between China and the United States continues with punitive tariffs imposed on each other, the market space left out of the two giants' territories

Figure 3
A comparison of the US–China targeted products released in June and July 2018



Source: Natixis; USITC; UN Comtrade.
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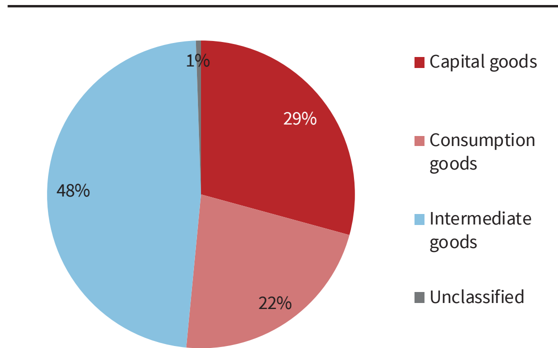
Figure 4

Decomposition of US' imports from China under the 200 billion tariff list



Source: Natixis; USTIC. © ifo Institute

should, to a certain extent, be filled by competitors from the rest of the world. As the biggest economic bloc in the world, the EU is, without doubt, a potential winner in this respect. The EU is currently the second largest exporter to both China and the United States. This makes EU exporters most likely to pick up the market shares of both Chinese and US companies in the midst of the trade war.

However, it is important to realize that the trade war has evolved into a more complex reality, namely a strategic competition between the two largest economies in the world (see Garcia Herrero and Xu 2019). Within that context, US expectations of China seem to be geared toward two fronts: increasing Chinese imports from the United States (not necessarily a market measure) and improving market access for US companies in China. While achieving such measures could be beneficial, especially for the United States, it is not necessarily the best outcome in all dimensions. In particular, targeted imports will create a trade diversion for China, thus reducing China's imports from the United States' main competitors, particularly Europe. Also, forcing better market access will not be sufficient to change China's key economic characteristic, i.e. state capitalism. But for the time being, China seems to have little intention of reducing it, making it unlikely that the US and the rest of the world, including Europe, will benefit from better market access (Garcia Herrero 2018e).

OPTIONS FOR EUROPE IN LIGHT OF INCREASING ECONOMIC COMPETITION BETWEEN CHINA AND THE US

What the US-China trade war has brought about is not only short-term trade tensions, but more importantly, a systematic shift in the trade order that has supported the world's development for the past century. Undoubtedly, the United States and China will be the most influential blocs in the 21st century, and their conflict is doomed to be long lasting. While the two countries may find some temporary solution to the current tariff disputes, their conflicts are intrinsically embedded in the competitive stance, which could only be exacerbated in the future. This is all the more natural considering that China's economy is already as large as that of the United States (at least in purchasing power terms and soon in USD terms), but more importantly, that it will contribute over three times more than the United States to the global economy in the next ten years (Figure 5). In other words, although the United States is a more important market for Europe today, this will soon no longer be the case given the positive growth differential between the US and China, which continues to be very large.

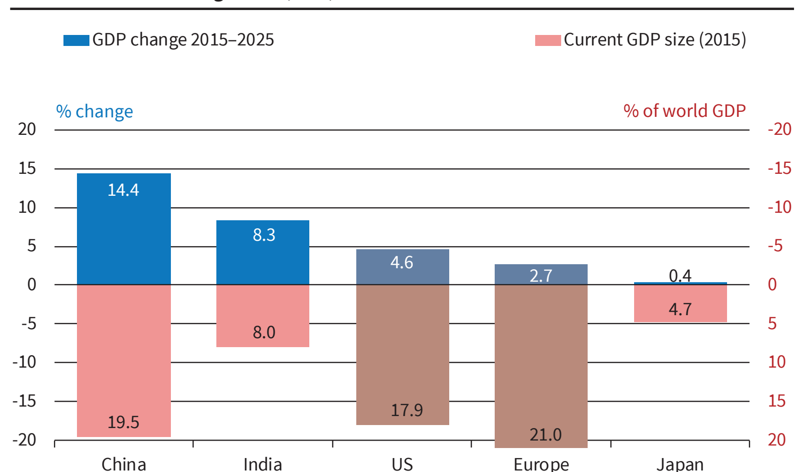
The global influence of this US-China cold war will be persistent. At this turning point, as the world's only figure that can balance the power between the United States and China, the EU must decide how to respond to the trade war. There are several options currently under discussion.

Safeguard Multilateralism?

The EU has long been calling for economic multilateralism and is pushing for the reform of the WTO to adapt to China's sheer size without it having become a market economy. In fact, one could argue that one of the key points of contention on the part of the US is indeed China's following a different economic model while still being part of a free trade world. The European response to this reality is to keep, if not enhance, multilateralism by reforming existing institutions, especially the WTO, so as to impose market practices on all members

Figure 5

Contribution to world growth (PPP)



Source: Natixis. © ifo Institute

in order to protect fair trade (Demertzis 2018).[1] This really means that the WTO will need to address the issue of the major role of state-owned enterprises in China in the production of goods and services and the pervasive role of subsidies in production. This would bring the WTO close to the US concerns over China's unfair practices in international trade.

While the EU may easily find common ground with the United States on the key issues (only if the current US administration were to engage in such reform, which is not the case now), the reform requests could be difficult to pursue with China. In fact, the role of SOEs is considered key in China's model of socialism with Chinese characteristics, and thus impossible to dismantle in the foreseeable future. China will argue that the role of SOEs remains moderate[2] and should thus be no issue for WTO reform. The Chinese have also borrowed the concept of competitive neutrality from the OECD and argue that they are increasingly close to applying competitive neutrality to companies operating in China. Garcia Herrero and Xu (2017) hold a very different view on the role of SOEs in the Chinese economy, both because of its more pervasive influence and, more importantly, because of their very different nature from other SOEs around the world. In fact, the key reason for their unequal footing with the rest of the companies operating in China, including private Chinese companies, is their preferential access to the market in many sectors, as well as their special connection with China's long-standing party of government, namely the Communist Party.

That said, the EU will also find the United-States difficult to cooperate with on reforming the WTO. Since its arrival to power, Trump has pushed 'America first' policies and certainly not supported multilateralism. In fact, the fact that tariff measures taken by the United States are based on 'security' reasons and bypass the WTO's multilateral settlement mechanisms is a clear sign that the United States may overthrow multilateral values in its own interest. As such, while the United States seems to share more of the market and democratic values with the EU, it does not seem ready to fully conform with the EU's proposal for a WTO reform to preserve multilateralism.

Under such circumstances, it does not seem very credible for the EU to continue to push the agenda of multilateralism without the US and China. On the other hand, though, it looks extremely dangerous for the EU not to do it, as it is no longer a superpower, nor does it intend to be one. All in all, while continuing to make efforts to preserve multilateralism, Europe may need to explore other responses to the current standoff between China and the United States, aware of the increasingly slim chance that multilateralism will become the driving force again.

Enhancing Europe's Reliance on the Transatlantic Alliance?

Another potential option for Europe is to keep the *status quo* while reinforcing it on the basis of an increasing economic confrontation between the United States and China. In other words, the EU may also choose to lean completely on the United States. The question is how wise it is to do so in the current environment with clear changes in the US attitude toward multilateralism. This is all the more disappointing inasmuch as it was the United States that pushed for such a system as a way to create a safe environment for its allies and eventually to engage the rest of the world after the collapse of the Soviet Union.

The current US administration has made it very clear that multilateralism and open trade is a thing of the past. The gunfire that the United States has triggered is not only against China but against many other countries as well, including the EU. As recently as 2018, the United States threatened the EU with tariffs on steel, aluminum, and cars. It also criticized the EU for its large trade surplus with the United States. The US also criticized several EU member states for not fulfilling their economic responsibility with regard to military spending as members of NATO. As such, the EU alliance with the United States will be more costly for the EU than it has ever been, as the United States is not happy with the current distribution of costs and benefits of such a transatlantic alliance.

More importantly, because the United States has chosen a non-market bilateral path for dealing with China and other issues, the EU's complete support for the United States will mean that it has to give up on its rule-based approach to problem solving, and thus its principles. This is obviously very costly for the EU, as its own internal market is based on a strong rule-based system, but also for the world, since the EU is the bastion of multilateralism. Reform of the World Trade Organization is a clear case in point, since the EU is really holding to it and would probably not manage to do so if pushed toward a relation of clear dependence on the United States.

There is another practical reason that prevents the EU from leaning on the United States completely. The EU is not a single country, but a group of 28 countries that have different views on the United States and also on China. In fact, while Western Europe may be easier to unite against China, Eastern Europe – and also Greece and Portugal, and recently perhaps even Italy – may express opposing views on a strategic alliance with the United States that would require leaving China aside. In fact, the recent effort by

[1] For more details as to how Europe can defend multilateralism in the world and what the options for Europe are, see Jean *et al.* (2018) and Wolff (2018).
[2] According to China's National Bureau of Statistics, in 2015 SOEs accounted for 38.8 percent of total assets for industrial enterprises above scale.

the EU to establish an EU-level investment screening system resembling the US' famous CFIUS has been vetted by some EU members so that its final version is really very limited in scope and hardly a threat to China. China has also created a platform with Eastern European and Balkan countries, the so-called 16 + 1, since all of these countries are part of China's Belt and Road Initiative (BRI). Many of these countries expect investment from China to ease their financial concerns and reduce their dependence on Brussels. This, in itself, poses problems for the EU and might actually push it even closer to the United States regardless of the costs.

Strengthening Cooperation with China

Strengthening cooperation with China is also a practical – albeit unlikely – choice for the EU inasmuch as its current strategic ally, the United States, is moving away from multilateralism, thereby harming EU interests. In fact, not only is China's economy already of similar size to the United States, its contribution to global growth will be much greater, as previously shown. This means that the opportunities in the medium term should be greater in China, but under one very important hypothesis: market access.

This is why most of the discussion as to whether Europe should rebalance its economic partnership toward China, at least partially, boils down to improving European companies' market access in China. Within that context, the EU started negotiating a bilateral investment agreement (BIT) with China at a time when the economic relations still have a positive perception from the European side, but things have changed quite dramatically since then. In fact, the 12th round of BIT negotiations has not seen an agreement. The key stumbling block is indeed market access for European companies in China and reciprocity, which of course is related to the perceived lack of market access.

Beyond market access, EU authorities are concerned about potential discrimination against EU investors operating in China, including explicit or implicit preferential subsidies for certain enterprises. Such discrimination may also be a factor for Chinese companies operating in Europe. While market access is a more general issue, potential discrimination by means of implicit or explicit subsidies has linkages to the role played by Chinese SOEs. This is true not only for the Chinese economy, but also for Chinese investment in Europe because a good part of it (most of it until very recently) originates from SOEs.

In China, SOEs have a much broader scope, as they originate from the planned economy era when they dominated all sectors (either SOEs or collectively owned companies). Most Chinese SOEs, even now, are not established with a view to correcting market failure, but more to carry out government objectives. Chinese SOEs are bigger, more pervasive, and more dominant than their EU counterparts, and more importantly, they exist in nearly every key sector in Chinese society (Table 2). Against this backdrop, the Chinese government has created a special favorable environment for the SOEs. This actually triggered the concerns over their unfair competition in the international market and is one of the key barriers confronting China in forming an economic alliance with the EU.

The hope of an EU-China BIT is that it would foster investment on both sides, but the reality is that, at this current juncture, Chinese investment in the EU is ballooning while EU investment in China is slowing down and is already below that of China in the EU. More specifically, in 2011, China's outward FDI (including that from Hong Kong) accounted for only 1% of the EU's total inward FDI, whereas China received 3.5% of the EU's outward FDI. Given how large the Chinese economy already was in relation to the world economy in 2011, this can be considered relatively modest. The situation today is very different. Figure 6 shows that EU has seen the largest growth in attracting Chinese investment since 2016, particularly in the industrial and ICT sectors, where China has been eager to cooperate to climb up the technology ladder (Figure 7). Because the United States has closed its doors to China on the basis of 'national security concerns', the EU is now the only place where China can easily gain access to buy foreign companies.

All in all, given the increasingly difficult relations with the United States, the EU should explore a certain degree of rebalancing toward China. However, the key stumbling block will continue to be China's

Table 2

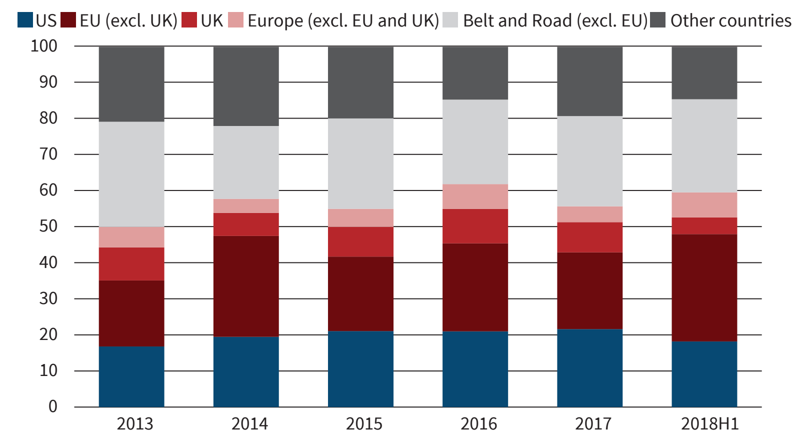
Sectoral sales distribution of SOEs, POEs and FOEs in China in 2008 (%)

Sector	SOE	POE	FOE
Health	58.92	41.06	0.02
Wholesale & retail	2.20	97.73	0.08
Construction	24.43	75.26	0.30
Culture	54.71	44.36	0.94
Education	34.06	64.85	1.09
Finance	21.74	76.78	1.48
Accommodation	25.96	71.60	2.44
Real estate	7.32	90.11	2.57
Environment	43.65	53.51	2.83
Research	33.94	62.28	3.78
Lease business	26.94	64.65	8.41
Restaurant	4.00	86.96	9.04
Manufacturing	15.11	75.26	9.63

Note: FOE = foreign-owned enterprise.

Source: Bruegel, based on China's economic census data.

Figure 6
Destination of the overseas completed M&A
Percentage of number of deals



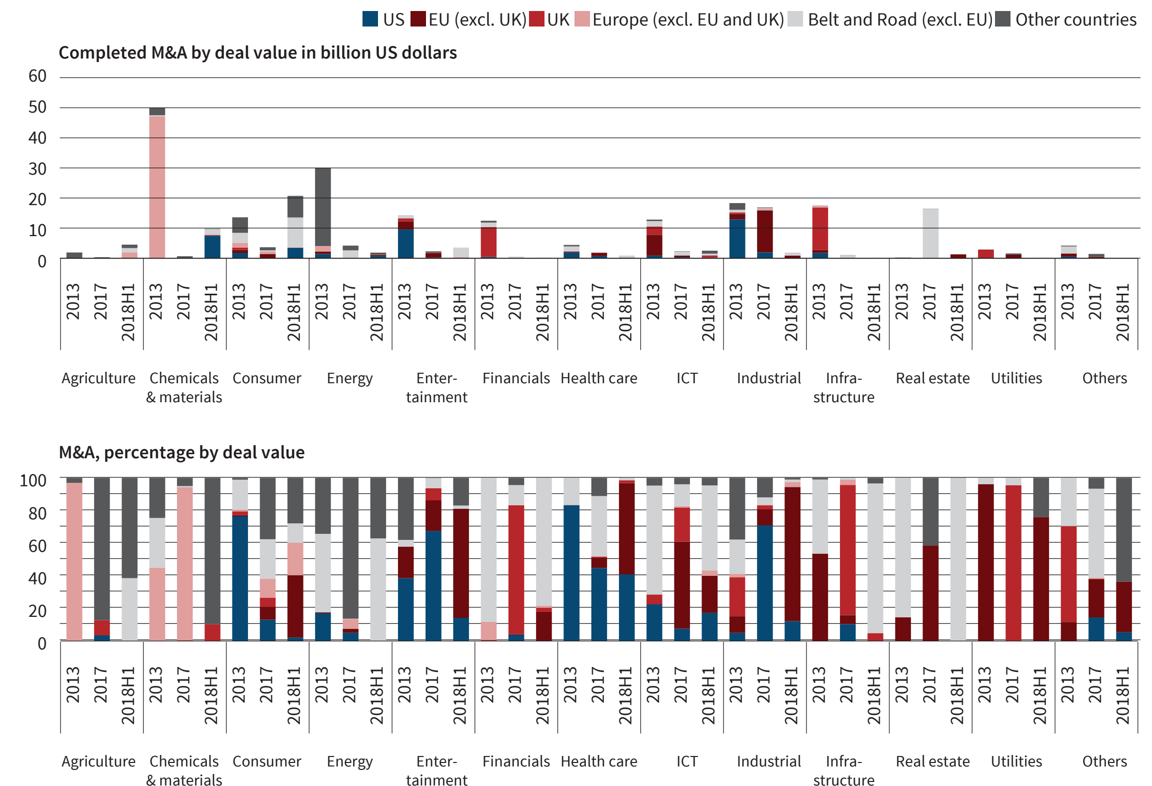
Source: Mergermarket; AEI; NATIXIS. © ifo Institute

state capitalism and the lack of market access to foreign companies. For the specific case of state ownership, preferential market access in China, rather than ownership of SOEs, should be the key consideration for European policy makers when evaluating the undue advantage enjoyed by Chinese corporations. This is because private companies with ties to the Chinese government might also benefit from preferential market access. The recent case of Huawei shows how much the Chinese leadership may fall in behind key private companies, especially if they belong to strategic sectors.

More generally, the first priority issue that an EU-China BIT should pursue is market liberalization, so that any market access granted through the BIT puts European companies on an equal footing with their Chinese competitors (even with SOEs). This obviously requires reciprocity (García Herrero and Xu 2017). In fact, market liberalization is important not only for foreign companies but also for private Chinese companies so that gains are also shared with China.

While engaging with China in its liberalization and opening up, the EU cannot remain fully open to China's acquisitions of technology and the competition of Chinese state-supported companies in the single market. Europe has just announced a stricter framework for screening foreign investment (mainly directed at Chinese companies). Still, three key instruments might be used, with some reinterpretation of the EU Treaty, namely competition, dispute resolution, and state aid policy. The first does not require explanation, nor does state aid policy, with

Figure 7
Regional and sectoral distribution of China's overseas completed M&A



Source: Mergermarket; AEI; NATIXIS. © ifo Institute

the caveat that it cannot yet be applied to non-member states. As for dispute resolution, identifying unfair behavior by a firm can be easier after a firm reveals its status by operating in the EU market. An appropriate dispute settlement mechanism can protect both European and Chinese corporations. Among the various options, an investor-state dispute settlement system (ISDS) seems to be favored internationally, but would need to be revised so that governments (either in China or the EU) do not fall prey to corporations suing them without clear justification. Furthermore, in the case of China, the very close links between corporations and the Chinese government (especially when operating abroad) could make ISDS a double-edged sword for the EU. In certain cases, China could, for its own purposes, support its enterprises in suing EU companies. In addition, the implementation of the ISDS might be difficult in China, where experience with investor-state arbitration is rather limited and there is a very low probability that the Chinese government would enforce foreign court decisions. A revision of the ISDS is thus warranted to balance the interests of the parties in the BIT negotiation.

As such, we could see that internal Chinese reform is key for the EU to pursue a better alliance relationship with China. The priority issue that the EU and China need to pursue is market liberalization, so that any market access granted through the BIT puts European companies on an equal footing with their Chinese competitors (even with SOEs). This obviously requires reciprocity. But there is still a long way to go in this direction.

CONCLUSIONS

This paper reviews the impact of the US-led trade war against China and its immediate consequences, not only for China and the United States, but especially for the European Union. The first thing to note is that, although protectionism can never be growth enhancing, and certainly not for a net exporter like the EU, there are still gains to be made by European companies from the ongoing US-China trade confrontation, as they may be able to replace US exporters to China or, to a lesser extent according to the findings in this article, Chinese exporters to the US. Unfortunately, the current truce agreed between the United States and Chinese governments on the sidelines of the G20 meeting might reduce such opportunities for EU exporters and might even create another trade diversion from European products in favor of American products.

The fact that the EU feels increasingly squeezed between the United States and China in their strategic competition should push us to consider our options in the current global setup. So far, the EU's option seems to have been to support multilateralism at any cost. Unfortunately, the latter is increasingly less likely, as the United States has no intention of reverting to the model it once helped create. On that basis, and given Europe's reluctance to play a leading role without the United States, the push for a return to multilateralism seems more an option of the past than an option of the future, let alone the present. The second most obvious option for the EU would be to increase its dependence on the United States, or in other words, to push its strategic alliance further. However, we should realize that this comes at a cost, or more specifically two, that were not present before. The first is the increasing unreliability of the United States as an ally and a seemingly different distribution of costs and benefits for its allies (more costs for the EU, such as military expense, but fewer benefits on the trade side). The second caveat of a greater reliance on the United States is the need to align against China on issues of interest to the United States. Although such issues are not very different from the complaints raised by the EU regarding China (market access, reciprocity, excessive role of the state in the economy, and a stronger defense of intellectual property rights), the reality is that the United States' interests will come first in this battle. In other words, the EU could lose its potential preferential access to China through a stronger alliance with the United States. Finally, the third option, namely rebalancing toward China, at least partially, cannot be an option for Europe in the current circumstances due to very limited access to the Chinese market. However, if China were to truly further open up its economy to foreign competition (i.e. offer full market access), this option could become much more favorable. Based on past experience since China entered the WTO, this option seems highly unlikely, but worth pursuing. In that context, China's willingness to open up its markets to foreign competition clearly requires market access and reciprocity. While China makes up its mind on whether the above is a real option, the EU has no choice but to protect its strategic sectors from China's acquisitions and to safeguard the single market against unfair competition from Chinese SOEs.

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