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Time for a New Atlanticism: The EU-China Comprehensive Agreement on Investment and the International Order

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Abstract

There has been no shortage of critiques of the EU-China Comprehensive Agreement on Investment (CAI) signed on 30 December 2020. Many have perceived the CAI as a snub in the face of the Biden administration, which has the potential to jeopardise one of the most important strategic goals of the transatlantic alliance: setting aside four years of Trump's populist economic policy and working in close coordination with a view to developing a united front to contain China. While the CAI does indeed indicate that the EU considers itself a fully autonomous international economic player, however, such a display of autonomy need not be incompatible with a stronger transatlantic alliance. In fact, the CAI may be an opportunity for the transatlantic alliance to evolve into a partnership among equals that is necessary to successfully navigate the uncharted waters of the coming global (dis)order.

Keywords: European Union; China; United States; investments; global governance

The conclusion of the China-EU Comprehensive Agreement on Investment (CAI) between the European Union (EU) and the People's Republic of China (PRC) on 30 December 2020 suggests that the EU may finally have found the courage to look the United States (US) squarely in the eyes. Nevertheless, there has been no shortage of critiques of the deal concluded by the European Commission (EC), spurred on by Germany and France and consented to by all EU member states For some, the deal sacrifices the EU's long-standing role as a promoter of human rights on the altar of improved business conditions for European companies in the world's second-largest economy.[1] Others stress that the agreement is inconsistent with the EU's designation of China as a "systemic rival" (High Representative of the Union for Foreign Affairs and Security Policy 2019) and its recent adoption of new instruments to screen strategic investments by state-owned or subsidised enterprises (European Commission 2020). But most importantly, many observers have blamed the agreement for its potential impact on transatlantic relations in an epoch in which cohesion and unity of intent are crucial assets to be preserved and strengthened.[2] On both sides of the Atlantic, the CAI has been perceived as a snub in the face of the Biden administration, which jeopardises what should be the bigger strategic goal of the transatlantic alliance: setting aside four years of Trump's populist economic policy and working in close coordination to develop a united Western front to contain China and Russia.

Looking at the political potential that the agreement may portend for the EU rather than on its actual implementation perspectives,[3] however, we shall argue here that the CAI, far from imperilling the heart of the transatlantic alliance, may rather be an opportunity for the alliance to evolve into an equal relationship necessary to successfully navigate the uncharted waters of the coming global

[1] See, for example, the reactions reported in Ghiretti (2022).

[2] See Mears and Leali (2020).

[3] The European Parliament has temporarily suspended ratification due to Chinese sanctions against some of its members, while technical preparation is ongoing (Van der Loo 2021). Although a discussion of whether the agreement will be finally ratified is beyond the scope of this essay, notably, Chancellor Olaf Scholz expressed the hope that the CAI "will take effect as soon as possible" (in *Euobserver* 2021).

(dis)order. In an international system in which China and Russia are openly challenging US primacy,[4] it would be short-sighted on the part of Washington to believe that an ancillary role of the EU is the answer to the challenges that lie ahead. The US may be tempted to interpret the EU's display of autonomy as an act of ungratefulness and insubordination. That temptation is understandable. For more than 70 years, the US has taken the EU by hand. However, at a time in which uncertainties and anxieties about an unknown future risk triggering a myopic assessment of what its long-term interests are, Washington should come to acknowledge that these interests may be better served by forging an equal partnership with Brussels. In our view, the CAI bears witness to the fact that the EU can finally become an international player ready to take up the responsibility of helping Washington make the right choices. Amidst increasing great-power rivalry and growing nationalism, our analysis suggests that the CAI has the potential to recalibrate and stabilise the existing multilateral order. Moreover, by increasing Chinese economic interests in Europe, it can also help to limit the growing solidarity between Moscow and Beijing.[5]

The EU's economic power

As Robert Dahl (1957) famously argued, power is an intrinsically relational concept that tells us something about the extent to which an actor is capable of getting another actor to do something that they would not otherwise do. Additionally, Bertrand Russell (1938, 11) reminds us that such a relational concept is also multidimensional: "power has many forms, such as wealth, armaments, civil authority, influence on opinion. No one of these can be regarded as subordinate to any other, and there is no one form from which the others are derivative".[6] Accordingly, since power is highly

[4] For a long-term perspective on US relations with Russia, see Natalizia and Valigi (2020). On the unintended effects of the European Neighbourhood Policy on relations with Russia, see Casier (2019).

[5] On the increasingly closer Sino-Russian relations, see President of Russia (2022).

[6] See Gilpin (1981, 3) and Luard (1988, 1) for classic views of the difficulty of defining power in international relations.

contextual, it would be best to talk about different types of power whose nature and reality are intrinsically linked to the issue-area in question (Andreatta and Zambernardi 2017).

From this viewpoint, the EU on the world stage is an example of an international actor which exerts a particular type of power in a specific domain. Indeed, in spite of the recurring debate concerning whether the EU is a 'power' in the fields associated with traditional 'power politics' (Heisbourg 2020; Moravcsik 2010; 2017), there is little doubt that the EU does not command significant military power. In matters of defence and international security, it heavily relies on NATO and economic sanctions (Portela 2010; Giumelli *et al*. 2021; Poletti and Sicurelli 2022). Not only has the EU never used coercive force abroad, as most of its foreign policy operations are police, training and capacity-building missions, but it is also not likely to be able to use it in the foreseeable future. Although it would be an exaggeration to describe these operations as "small, lacking in ambition and often strategically irrelevant" (Korski and Gowan 2009) – for example, EU missions have surely improved a variety of critical situations from the Balkans to the Sahel – they have only slightly affected relations among great powers.[7]

To be sure, Russia's recent invasion of Ukraine has rightly sparked a renewed political debate on the necessity of building a truly, strong and unified European foreign and defence policy. The time may have come for the EU to move forward in terms of strategic autonomy. However, though the war in Ukraine may catalyse new initiatives in the area of hard power both for NATO and the EU – "a turning point in the history of our continent", as Chancellor Olaf Scholz (2022) put it[8] – developing new capabilities and forging a truly common foreign and security policy will take time.

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[7] For a comprehensive view of the EU's foreign policy, which goes beyond the focus on the Common Foreign and Security Policy and Common Security and Defence Policy, see Keukeleire and Delreux (2022).

[8] 'It is very likely that Russia's invasion of Ukraine will convince NATO members to spend more than 2 per cent of their GDP in defence. In other words, with its unprovoked attack on Ukraine, Russia will likely attain what former President Trump failed to accomplish for four years.

Making the rather uncontroversial assertion that Europe is not a military power today and is not likely to become one in the next few years does not equate with suggesting that the EU is not a power at all. Indeed, Europe is already a power in a particular sense of the term and in a specific domain. If being a power means the capacity to exert influence on international relations, there is little doubt the EU has indeed acquired such status in international economic relations, particularly in the area of trade and, more recently, in the area of international investments.

Several factors have crucially contributed to making the EU a pivotal international economic player throughout the last half-century. First, the EU ranks first both as a trader of manufactured goods and services, and as a source of, and destination for, international investments (Gstöhl and De Bièvre 2018). Second, member states placed trade policy under supranational competence from the very beginning of the European integration project and provided the EC with the authority to elaborate, negotiate and enforce trade relations with the rest of the world. The EU's uniform trade policy and its institutional obligation to speak with a single voice, combined with the sheer size of its economy, have enabled Brussels to wield huge influence in international economic relations, and increasingly so over the last three decades (Damro 2012; Dür 2010; Meunier and Nicolaïdis 2006). Indeed, as Robert Keohane (1984, 33) argued, "the bigger one's own market, and the greater the government's discretion in opening it up or closing it off, the greater one's potential economic power". Moreover, the EU is the world's economic entity possessing the deepest and most extensive links with Foreign Direct Investment (FDI)-driven Global Value Chains (GVCs), that is, transnational networks of production, trade and distribution (Dür *et al.* 2021). Combined with the extension of exclusive competence on FDIs that came with the adoption of the Treaty of Lisbon in 2009 (Meunier 2017), such a pivotal role in GVCs means that the EU's international economic power is no longer confined to the area of trade, but now extends to that of international investment relations. By no means coincidentally, it is in these areas that the EU commands this power that it decided to begin its transition towards a more autonomous international role.[9]

The debate about the EU's strategic autonomy has often focused on the need to increase EU capacities in the areas of security and defence; initiatives such as the Strategic Compass or French President Macron's proposal for a Common Security and Defence Union could make an important contribution in filling a long-lasting capabilities-expectations gap in these domains (Hill 1993; Toje 2008). But, wisely enough, the EU's strategic autonomy materialised in the areas where capacities already existed. This is what happened on 20 December 2020, when the EU concluded negotiations for a Comprehensive Agreement on Investment (CAI) with China.

The Comprehensive Agreement on Investments

The economic and political implications of the CAI are noteworthy and far-reaching. In the economic realm, China committed to a greater level of market access for EU investors in the manufacturing sector (for example, electric cars, chemicals, telecoms equipment, health equipment) and the service sector (such as cloud services, financial services, private healthcare, environmental services, international maritime transport and air transport-related services), bolstering certainty and predictability for their operations. Indeed, China will no longer be able to prohibit access or introduce new discriminatory practices. China also committed to fair treatment of EU companies by ensuring discipline of state-owned enterprises, transparency of subsidies and rules against the forced transfer of technologies. Moreover, for the first time, China agreed to make good faith efforts to sign key International Labour Organization conventions (European Commission 2020).

[9] Moreover, when European states displayed autonomy from the US, they did so in a spectacularly divided way, such as when France and Germany opposed the US invasion of Iraq in 2003, with Italy and Spain instead joining the military operation; or when in 2011, Germany decided not to participate in Operation Unified Protector against Gaddafi's regime. In other words, European autonomy from the US has often meant European disunity.

While the agreement's potential to generate economic gains for Brussels and Beijing is sizeable, its most important mark is political. For one, it establishes a uniform legal framework for EU-China investment ties that replaces the 25 outdated bilateral investment treaties (BITs) that China and EU member states concluded prior to the Lisbon Treaty's entry into force in 2009. This means that, with the CAI, the EU speaks to China with one single voice not just on trade in goods and services, but also on investment. Those who fear that the agreement will increase market access opportunities for Chinese investors in Europe forget that such opportunities already exist under current BITs signed by EU member states individually, yet with fewer conditions attached. By speaking with one voice during the negotiations that preceded the signing of the CAI, Brussels was able to extract concessions that EU member states could not have obtained separately. Of course, it would be unrealistic to believe that the CAI will miraculously force China to accept liberal-democratic norms, but it does represent a significant step forward for the kind of regulated globalisation that the EU has long sought to embody and promote (Taylor 2021). It would therefore be short-sighted to overlook that the agreement has increased the EU's leverage in its interactions with China.

In addition, and most importantly, the CAI shows that the EU considers itself a fully autonomous international economic player. Just before the agreement was signed, the US and the EU had launched a new dialogue designed to coordinate approaches to China. One week prior to the CAI, with the Biden administration preparing to take office in Washington, incoming national security advisor Jake Sullivan tweeted that the administration "would welcome early consultations with our European partners on our common concerns about China's economic practices" (cit. in Sevastopulo *et al*. 2020). Somewhat unsurprisingly, the deal with China was met with some dismay on the US side. On this point, it is important to distinguish between short-term and long-term consequences. In the short term, being currently 'frozen', the CAI does not appear as an object of controversy between Washington and Brussels. However, in the long-term the CAI is likely to become a source of tension if and when it is resumed, particularly at a moment when the Russian invasion of Ukraine is deepening tensions between the US and China. On the one hand, a future ratification of the agreement would mean that the EU no longer sees itself as an ancillary ally of the US in the Sino-American competition. On the other hand, ratification of the CAI can also be seen as Beijing's success in driving a wedge between Washington and Brussels, with the potential to damage the transatlantic relationship (Liu 2021).

We do agree that the CAI marks a turning point in US-EU relations. With the CAI, the EU is indeed making an important statement: being a loyal, responsible and reliable ally of the US does not imply accepting limited economic sovereignty. Both the timing and the content of this foreign economic policy initiative send a signal to the American counterpart that discussions about transatlantic consensus should not be based on the assumption that the US ultimately holds a veto over the EU's trade and investment choices. Four years of President Trump's relentless attempts to undermine European integration have made it clear to European leaders that the long-term strategic interests of the two allies may not always coincide. In this particular case, Brussels is not saying 'no' to the prospect of transatlantic cooperation to face the rise of China; it is saying 'no' to the idea that doing so necessarily means agreeing to pre-emptive decoupling of the EU's economy from China's. In short, the primary reasons why we believe the CAI represents a true display of EU strategic autonomy are not economic but political: by concluding the CAI, the EU is stating that, at least in the realm of international economic relations, it does not wish to be considered a mere prop to the US in the Sino-American rivalry.

Coping with the shock: possible reactions in Washington

The more or less explicit assumption by those who criticised Brussels for signing the CAI is that a transatlantic alliance can only work if the EU agrees to follow the US whenever strategic interests between them are not fully aligned. Such a view holds that the choice between European autonomy and a revamped transatlantic bond is necessarily binary. Many factors suggest that this interpretation is likely to find strong support in Washington and, after Russia's full-scale invasion of Ukraine, even in some European circles.

The main reason relates to system-level pressures. The dynamics of relative decline vis-à-vis China clearly push the US toward envisioning the transatlantic relationship as an instrument to wage security competition with its rising rival. In order to make this point clearer, let us recall John Mearsheimer's (2019) recent distinction between international and bounded orders. Such orders are organised groups of institutions that help govern the interaction among member states. They are international when they contain nearly every country in the system. They are bounded when they consist of a set of institutions with limited membership. While international orders are virtually universal, bounded orders are usually regional in scope and dominated by a single great power. International orders help great powers cooperate with each other, while bounded orders help great powers compete with opposing great powers.

This distinction sheds light on the structural incentives that underlie EU-US relations. While a declining hegemon may be expected to willingly disengage from the international order of its own creation, the opposite should be true for its behaviour in bounded orders: relative decline can be expected to increase a hegemon's willingness to strengthen its ties with other members of the bounded order because the latter are instrumental for increasing its ability to contain a rising hegemonic challenger (Poletti and Zambernardi 2021).

Already before Russia's invasion of Ukraine, the end of the "unipolar moment" (Layne 2012; Zakaria 2019) had unleashed powerful systemic dynamics structuring the coming international system in two opposing bounded orders dominated by the US and China respectively. In such a context, Washington has a crucial interest in strengthening military and economic ties with its allies. In fact, that is exactly what the Obama administration did when it pushed for negotiations to finalise the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP), two mega-regional trade agreements that had been pushed forward precisely with a view to both increasing mutual gains with allies and excluding China (Poletti 2017). Concerns about China's rise date back to at least the Bush administration, which had already started thinking about a 'return to Asia'; they fully matured during the first Obama administration with the so-called 'pivot to Asia'. System-level pressures relating to the US' relative decline and China's concomitant rise convinced Washington to tighten military and trade ties with its partners in an effort to balance China and protect the US' position at the apex of the global hierarchy (Manyin *et al*. 2012).

From this perspective, President Trump's disengagement from leading both the Western and the Asian bounded orders – epitomised by the decisions to withdraw from the TPP, oppose the TTIP negotiations and support Brexit and other anti-European political movements across Europe – marked a discontinuity with his predecessors' strategic choices that runs counter to such system-level pressures to strengthen existing bounded orders (Poletti and Zambernardi 2021). The current political climate in the US pushes US foreign policy in a similar direction. After all, the domestic forces that crucially contributed to the election of Trump have not disappeared. In the last two decades, the electoral districts most exposed to rising trade with China have consistently experienced an ideological re-alignment favouring more extreme and protectionist politicians across both congressional and presidential elections (Autor *et al*. 2020; Feigenbaum and Hall 2015) and reinforced protectionist stances within US political parties (Musgrave 2019). By no means coincidentally, while declaring that "Diplomacy is back at the center of our foreign policy", President Biden (2021) has also been keen to underline the primary importance of domestic political concerns: "No longer is there a bright line between foreign and domestic policy. Every action we take […] we must take with American working families in mind." In other words, Biden's foreign policy doctrine seems to include a central element of the previous one: the protection of the American middle class from international competition.

To be sure, after some tensions within the transatlantic partnership spurred by the Trump administration, the centrality of the old alliances will be resurrected. Many foreign policy choices of the Trump administration will be dispensed with, but the tough stance on China is likely to persist (Poletti and Zambernardi 2021). The fact that the Biden administration distanced itself from Trump's hard stance on Europe and other traditional allies, but not from his confrontational posture toward China, lends support to the view that the US is likely going to continue looking at EU-China relations through the prism of growing bipolar competition within the international system (and thus oppose strengthened Sino-European economic interactions). And with such a configuration of structural and domestic incentives, the temptation for Washington to conceive of European autonomy as incompatible with the transatlantic partnership is undoubtedly high.

Towards a new transatlantic relationship between equals?

A European display of autonomy, however, is not incompatible with a stronger transatlantic alliance. An alternative exists: the US can forget the ‘good old days’ of the transatlantic relationship, accept the EU’s transition towards greater autonomy and build a renewed partnership on different grounds. As Nathalie Tocci (2021) suggests, a more balanced transatlantic relationship would see a gradual shift from a partnership in which the US defines and implements strategy and, at most, calls upon Europeans to share the burden, to one in which, within the bounds of an enduring asymmetry, the US and the EU would (re-)define their goals together and share the risks and responsibilities in pursuing them.

With the negotiation and the provisional conclusion of the CAI, the EU has indeed engaged in that strategic autonomy constitutive of a new form of Atlanticism: independently pursuing one’s goals through policies of one’s own, yet strategically taking into account the moves of others. In our view, such a move toward autonomy should be used to achieve a renewed partnership between the EU and the US. Unlike in the past, when the EU used its bargaining power derived from its huge market size as a tool to advance its own interests and views, today the EU should use its economic power to foster international economic stability. There are a number of reasons why the CAI should not be seen by the US as a threat but, rather, as a stepping stone to building a renewed transatlantic relationship.

Cooperating with China, but under clear conditions

To start with, it should be clear that the CAI does not unconditionally open up EU markets to Chinese investors. Although the agreement has the potential to stabilise, and even foster investment relations with China, in many regards it has the crucial effect of pulling Beijing towards a more rule-abiding behaviour in international investment relations. First, of any agreement with China, the CAI contains the strongest and most concrete language banning forced technology transfers in the goods as well as service sectors covered by it (Dadush and Sapir 2021). Second, the agreement tackles the problem of unfair competition from State-Owned Enterprises (SOEs) by providing a clear and wide-ranging definition of SOEs. In its protocol of accession to the World Trade Organisation (WTO), China had already committed not to use subsidies to distort competition. Yet, definition of 'state-owned' and 'subsidisation' remained unclear. With the CAI, this is no longer true. Third, the commitment on SOEs applies not only to the central government, but also to provincial and local government intervention. Fourth, the agreement extends such disciplines and limitations not only to goods manufacturers but also to the entire service sector. Fifth, the CAI provides European firms with a chance to participate in Chinese domestic standard-setting in the sectors covered. Sixth, all these commitments are enforceable via state-to-state dispute settlement. In short, the CAI can contribute to making China a more responsible player in international investment relations.

But that is not all. Those who fear that the CAI puts the EU in the hands of the Chinese giant forget that the agreement is only one of the three pillars around which the EU is redefining its posture as an international investment player. To get a full sense of how the EU intends to position itself in this crucial area of foreign economic policymaking, two additional initiatives need to be taken into account. For one, in April 2019, the EU adopted the FDI Screening Regulation, which establishes a cooperation mechanism between the member states and the EC to exchange information and raise concerns about specific transactions that "may threaten security or public order," mostly involving investments in critical technologies (European Commission 2022a). Moreover, in May 2021, the EC adopted a proposal for a Regulation on foreign subsidies distorting the internal market, which gives it the power to investigate financial contributions granted by non-EU governments to companies active in the EU. In case the Commission finds that foreign subsidies constitute distortive measures, Brussels can impose countermeasures to redress their effects (European Commission 2022b). Although both sets of rules formally apply to all non-EU firms investing in the EU market, it is clear that they have been devised with a view to acting as a bulwark against unfair competition from Chinese firms.

Nonetheless, these two sets of rules should not be considered to be exclusively aimed at protecting the internal market and defending the Union's or its member states' interests vis-à-vis China. The increased ability to limit inward FDI from China could be used by Brussels as a bargaining chip in its trade and investment negotiations to achieve, on the basis of reciprocity, better access for EU investors to the Chinese market (Schill 2019). This means that, contrary to what many analysts and policymakers across the Atlantic fear, the EU's commitment to engaging with China is not unconditional. While the EU has shown its willingness to cooperate with Beijing, Brussels has also put in place a number of instruments to protect itself in case China does not stick to its commitments.

The CAI as a stepping-stone for a new multilateral investment regime

Perhaps most importantly, the CAI has the potential to act as a stepping-stone for the emergence of a new economic multilateral regime. In a context of rising commercial tensions between the US and China, the EU has a keen interest in strengthening and expanding international trade and investment rules under the WTO (Kurtz and Gong 2021). The CAI can play an important role in this context. The key element here is the logic of clubs, the attractiveness of club membership and the subtle, yet self-assured use of the threat of exclusion. The theoretical backbone of this line of argumentation derives from a long tradition of political economy studies investigating the distributional effects, and the related political consequences, of trade and investment agreements. As widely documented, the latter have trade and investment creation effects for their signatories, as well as trade and investment diversion effects between signatories and non-signatories (see Baccini and Dür [2015] for an overview). In the case of the CAI, all benefits of the commitments entered into accrue only to the signatories, excluding all others, including the US (Dadush and Sapir 2021).

Paradoxically, precisely because it has the potential to generate negative distributional consequences for outsiders, most notably for the US, the CAI has significant value for the transatlantic partnership as well as for the international order as a whole. More specifically, the EU could consciously use the bold step of threatening exclusion to compel the US to embark on a new path towards multilateral economic cooperation.

Consider the following historical parallels. To start with, the logic of club goods has been a major driver of the expansions of both the geographical and functional scope of the multilateral trading system itself. Indeed, when the General Agreement on Tariffs and Trade's (GATT) foundational idea of non-discrimination was tabled in Bretton Woods in 1944, it created a club good – be part of it or forgo its benefits – which enticed non-participants to join by accepting the political burden of making reciprocal market access concessions. Likewise, only a small group of GATT members in the 1970s Tokyo Round drafted regulatory agreements for the first time in the form of 'plurilateral' agreements that were subsequently multi-lateralised in the Uruguay Round (1994). Finally, the results of the Uruguay Round derived from an EU-US spearhead agreeing on a regulatory agenda (health and safety standards, disciplines on antidumping and subsidies, intellectual property rules and the like) and inducing all other members to join it. At the time, the EU and the US harnessed the attractiveness of their huge markets to entice the others to sign all new regulatory WTO agreements under the threat of being excluded from all existing market access commitments under GATT 1947 (Steinberg 2002), while subjecting all such commitments to enforcement through its dispute settlement mechanism (Poletti and De Bièvre 2016).

Trade and investment agreements entailing huge effects for outsiders have also proved historically instrumental in creating the political conditions for strengthened multilateral economic cooperation. The GATT, again, offers a useful illustration. As Andreas Dür (2007; 2010) shows, in the 1960s, the process of European integration caused huge trade and investment diversion effects that contributed to dramatically reducing the US surpluses in its trade with Western Europe. Faced with these adverse consequences, the US first reacted with a call for negotiations in the Dillon Round (1960-62) of the GATT, hoping for unilateral concessions by EEC member states. However, when EEC member states did not accept this demand, the US administration called for the start of the Kennedy Round (1963-67), in which it achieved a reduction of European discrimination by way of mutual concessions in multilateral negotiations. In short, the negative distributional consequences accrued to the US as a result of the trade and investment diversion caused by European integration created political incentives for deepening multilateral trade cooperation in the GATT.

Hence, from the perspective of the global economic order, the fact that the CAI will generate benefits for the EU and China, as well as disadvantages of exclusion for outsiders, is not necessarily bad news. In fact, precisely due to these effects, the agreement could trigger centripetal forces and act as a stepping-stone for the creation of new multilateral rules. As a consequence, Washington could have a clear incentive to negotiate similar benefits with their Chinese counterparts and/or consolidate these in a plurilateral agreement together with the EU; in due time, these commitments could eventually be multi-lateralised within an overall agreement in the WTO. Indeed, this logic of attractiveness through potential exclusion is at work both in tariff-based trade in goods sectors, where excluded exporters are likely to mobilise, and for investors, who are just as likely to react and mobilise to re-obtain a so-called level playing field (Baccini and Dür 2015). Not surprisingly, outsiders, such as the US, have voiced their concerns and would be jealous of the advantages negotiated by the EU, which is now moving towards strategic autonomy. At the same time, we should be aware that, in the medium and long term, the CAI may have the positive effect of exerting hard-to-resist attractiveness, hence drawing excluded outsiders into the fold. In short, the agreement can constitute the centre of gravity for the emergence of a new rule-based global regime in the area of international investment.

The EU as the pivot of a new global economic order

In our view, the CAI epitomises what the concept of strategic autonomy should be about for the EU: exerting the power it has, which is mostly economic, to prevent Sino-American relations from evolving into a strictly zero-sum game and, as a consequence, to lay the ground for the emergence of new stable mechanisms of global cooperation. As Dani Rodrik and Stephen Walt (2022) have recently argued, acknowledging that the emerging global order is likely to be characterised by a competitive relationship between China and the US does not necessarily imply doing away with the prospect of global-level cooperation on issues where the potential for joint action exists, such as trade and investment, climate change and global public health. Although the potential for such global-level cooperation is slight in an international system that is likely to be characterised by competition between two bounded orders, such potential is far from insignificant. Hence, the EU should induce its main ally to move in the direction of exploiting such a possibility.

This is the role that a finally autonomous EU should take up for itself in the context of a renewed transatlantic partnership: use its power to limit its ally's tendencies of looking at the world exclusively through the lens of competition with China, and to push it towards exploiting all opportunities that exist, however thin they may be, to act collectively to address global issues of mutual concern. The CAI offers a good example of how Sino-EU cooperative initiatives could be leveraged to pull the US into cooperating with China where interests may overlap. But an autonomous EU could also move in the opposite direction: using EU-US cooperation to create powerful incentives for China to accept global-level cooperation that it would otherwise be unlikely to support. The urgent need to address climate change offers the opportunity for Brussels and Washington to work together to draw China into a more cooperative participation in the rules-based global order. As famously argued by William Nordhaus (2015), the creation of a 'climate club' of countries that meet agreed minimum standards of climate policies and apply tariffs to products and services of those that do not do so could curb free-riding behaviour and pull recalcitrant countries into accepting global-level cooperation on climate change. In line with this logic, in July 2021, the EU adopted a package in support of its climate targets, which includes the Carbon Border Adjustment Mechanism (CBAM).

This is a measure that aims to prevent the risk of so-called carbon leakage by imposing a payment for the carbon used for the production of the imported goods in third countries. Other advanced economies are planning similar initiatives, but it is clear that the creation of a 'climate club' including the US could hugely increase the potential of such initiatives. In particular, it could trigger a race to the top in environmental protection that could ultimately draw major emitters, such as China, into a reformed global climate regime. And there is no reason why the EU and the US could not form a 'labour club' with minimum labour standards that would create incentives for developing countries to joint global-level efforts to curb practices of social dumping (Poletti 2022).

Conclusion

'It's tough to make predictions, especially about the future.' This old adage holds true as ever. Indeed, evaluating the possible economic effects of the CAI is a challenging task. With this in mind, we have nevertheless argued that the *political potential* of the agreement is significant. The assumption is that an open and healthy world economy is a necessary foundation for any stable international order. Although we now know that the simple inclusion of China in the WTO did not halt Beijing's predatory trade practices, any future global order needs China's support, especially in light of the Russian aggression on Ukraine. The danger of an emerging Moscow-Beijing axis must be countered not only through a series of coercive actions against Russia, but also by the creation of an international system in which China is more and more integrated. Such a system can only be built in concert. Although ratification of the CAI "faces an uncertain future" (Casarini 2022) and is unlikely to occur anytime soon (Yuen Yee 2022), a subtle policy that combines elements of containment and engagement (Zhao 2021) appears to be the best option available to address China's rise in the international system.

The US has long known and enjoyed the value of a shared, rule-based and institutionalised order among great powers. This is why the US must accept the EU's sometimes different interests and perspectives. A more balanced relationship between Washington and Brussels would simply be one in which decision-making in leading policy areas is more evenly shared. If the US clings too tightly to the traditional imbalance of power with the EU, it is likely to weaken not only its own position, but also the chance to build a more organised, cooperative and rule-bound order in a system which otherwise may seem to be heading towards intensified competition and zero-sum games.

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