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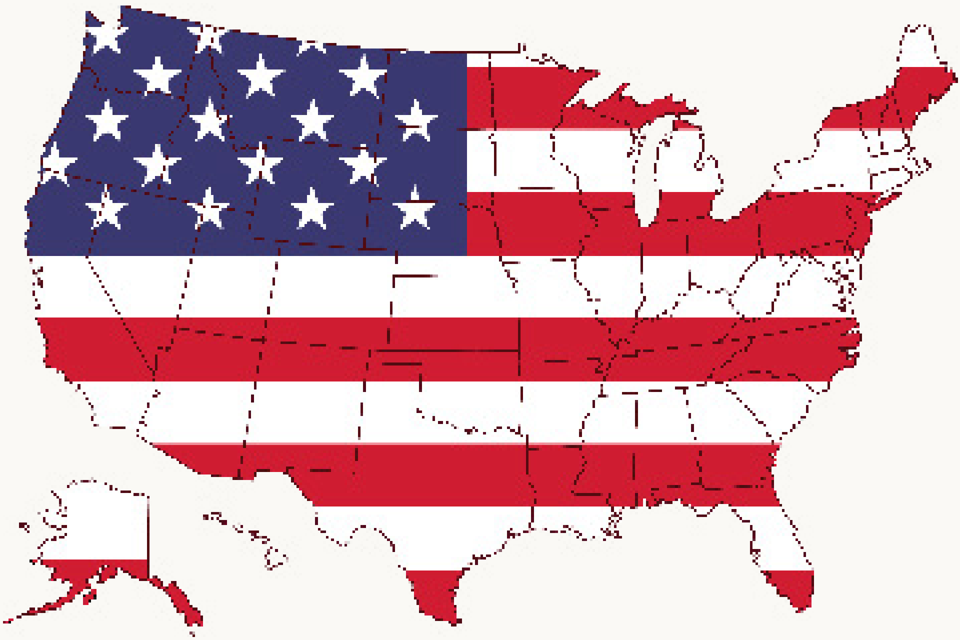

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BETTING ON OURSELVES: THE U.S. EUROPE, AND CHINA

One consequence of Vladimir Putin's war on Ukraine – besides Finland's very welcome decision to join NATO – has been renewed transatlantic attention to strategic dependencies. While the headlines have focused on Europe's efforts to wean itself off Russian energy, the deeper rethink centers around China, given its far greater importance as a critical node in global supply chains and a source of materials critical to many U.S. and European industries.

Daniel S. Hamilton
President of the Transatlantic Leadership Network

Twenty years ago, the U.S. and its European partners made a daring bet: we agreed to China's accession to the World Trade Organization, believing that deeper trade links could help open Chinese society and lead Beijing to become a "responsible stakeholder" in the international rules-based order.

In recent years, however, a U.S. bipartisan consensus has emerged that the West lost the bet. U.S. politicians fault China's unfair trade practices for the decimation of U.S. jobs and incomes. Also undermining relations: Beijing's active efforts to subvert the rules-based order; its challenges to the global commons; investments in key defense-related Western companies and infrastructures; ongoing cyberespionage; state-sponsored policies like "indigenous innovation," "Made in China 2025," "civil-military fusion;" its treatment of Uighur and other minorities; efforts to export its brand of digital illiberalism; its anti-democratic absorption of Hong Kong; and its efforts to bully non-compliant actors, even in Europe.

Growing strategic dependencies on China have accelerated U.S. efforts to restrict Chinese investments in the United States, deny critical U.S. components and technologies to Chinese companies, re-build the U.S. innovation base, including the semiconductor industry, and to build coalitions of like-minded democratic partners who share Washington's worries.

European countries agree with many of these U.S. concerns. Nonetheless, for most of the past decade, many European countries preferred to look at China primarily through the prism of economic opportunity. There are signs that this is changing. That is fortunate, because **instead of betting their futures on China, Europeans and Americans now have both need and opportunity to bet on ourselves – particularly the vibrancy and resiliency of our own deeply interconnected economies.**

In this regard, context is important. China's burgeoning trade in goods has reinforced a fairly widespread – yet incorrect – view that China has become the top commercial partner of the U.S. and Europe. Trade between countries, however, doesn't just consist of trade in goods. It also includes trade in services, and if you look at overall trade flows, not just one kind of flow, it is clear that the U.S. and the EU are each other's largest trading partner. EU27-China trade in goods and services in 2021 totaled €782 billion, while EU27-U.S. trade was €1.1 trillion – 42% higher. Moreover, the EU's investment stock in the U.S. alone is three times more than its investment position in all of Asia. U.S. investment in Europe is 3.8 times larger than its investment in the entire Asia-Pacific. In 2021, U.S. companies invested 37 times more in Europe than they did in China.

All told, the $6.3 trillion transatlantic economy remains the largest and wealthiest market in the world, employing 14-16 million workers on both sides of the Atlantic. In recent years, the full potential of the transatlantic economy was challenged by multiple policy disputes. In 2021, however, the clouds seem to part and the skies brightened. The Biden administration and EU leaders have set the stage for a relationship better positioned to deal with a turbulent global economy. They have created a Trade and Technology Council to align their approaches on a host of issues, ranging from supply chain resilience, promotion of clean technologies and export controls to standards for emerging technologies, data governance challenges, and misuse of technology impairing human rights. They have postponed niggling trade issues over aircraft subsidies, steel and aluminum tariffs, and pledged to devise new trade arrangements that could better advance low carbon strategies. They have joined forces to fight the climate crisis. They are poised to sign a new Transatlantic Data Privacy Framework governing flows of personal data.

The result: lingering U.S.-EU trade irritants, while quite real, are now playing out in a context of transatlantic unity rather than division. This year, the transatlantic partners have joined forces against a common threat. We now have opportunity to capitalize on the impressive strengths of our deeply intertwined economies to remain the world's standard-setters and its most inclusive innovators. **A vibrant and united transatlantic economy is our geo-economic base as we manage sanctions against Russia and reduce our dangerous dependencies on countries such as Russia, China and other unreliable sources of critical materials.**

Finland's Stake in Healthy Transatlantic Commerce

Finland is a good example of the extensive commercial connections that bind the two sides of the North Atlantic. According to our estimates, roughly 60,000 Finns owe their jobs either to U.S. companies based in Finland, Finnish goods and services companies trading with the United States, and their affiliated suppliers and distributors. Finland's investment stake in the United States has more than doubled over the past decade, totaling over $15 billion in 2020, 74% of which is in manufacturing and another 15% in wholesale trade. U.S. investment in Finland has also more than doubled in the past 7 years, from under $2 billion in 2015 to $5.3 billion in 2020. U.S. companies exported $3.1 billion in goods and services to Finland in 2020, and Finnish companies exported $6.2 billion to the United States. The United States accounts for roughly 21% of all Finnish goods exported outside the EU. Finland's top U.S. state trading partner is Pennsylvania, followed by Texas and California.

Finland's stake in healthy transatlantic commerce is even higher if one considers how many Finnish companies have become integrated into global value chains, which render a country's exports essentially the product of many intermediate imports assembled in many other countries. In today's global economy, a good produced in Finland and exported to the United States might include components from Romania or China, use raw materials from Ukraine or Australia or incorporate services from Turkey or Switzerland. Similarly, many Finnish exports of parts or components to Germany, Italy or France are then assembled as value-added elements of a final product that is sent to a final customer who is based in America, making the United States a more important commercial partner for Finland than commonly understood. During the pandemic, deep transatlantic economic integration helped U.S. and European firms weather the storm, with firms on both sides of the pond better able to access the markets and resources of the broader transatlantic economy to their advantage. The same is proving true now as both parties confront Russia's aggression. **The partnership, even in the face of significant challenges, will forge ahead again in 2023.**

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