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**Geo-economics of the  
European Union and the  
China Challenge**

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## **Geo-economics of the European Union and the China Challenge**

### ***Introduction***

The world order is changing, the probable threat to the United States of America's superpower status with the imminent rise of China and Russian President Vladimir Putin's ambitions of a global role for Russia, might give rise to a multipolar world order; the European Union (EU) cannot sit back and be a silent spectator in this transformation of world politics. The EU holds immense importance in the current geopolitical order as well as the geo-economics of the world. Despite Europe's internal struggles, it is a genuine super power and is likely to remain so for the times to come. Europe either rivals or exceeds the US and China in its capability to project a full spectrum of global economic, military and soft power. Europe regularly deploys military force within as well as beyond its neighborhood. With unique skills and a success rate unmatched by any other region, Europe manipulates its economic and soft power to persuade other countries to change their behavior.<sup>1</sup> In the similar terms, while emphasizing the geopolitical importance of the EU, President of the European Commission Ursula Von Der Leyen stated in her letter to the High Representative of the Union for Foreign Affairs and Security Policy and Vice-President of the European Commission, Josep Borrell, that her Commission would be "Geopolitical Commission." She, furthermore, stressed in her mission letter that changes in geopolitics

1 Moravcsik, Andrew. "Europe Is Still a Superpower And It's Going to Remain One for Decades to Come." *Foreign Policy*, April 13, 2017.

along with changes in digital technologies and climate are impacting the everyday lives of Europeans. In the context of shifts in local and global power structures, she wants her Commission to show determination and ambition in its response to these global transformations, which according to her will define the place of Europe in the world. She placed importance on multilateralism of the EU but at the same time she urged upon the need for leadership of Europe in the world.<sup>2</sup> However, the European Commission is primarily a “Geo-economic” rather than a Geopolitical Commission according to its structure, priorities and set-up. The Commission is an executive laser-focused on the economic power of the EU.<sup>3</sup>

### ***Geo-economic Relevance of the EU and the China Challenge***

The EU is equally capable of instrumentalizing economic interdependence for geopolitical objectives. The EU did not send military force in defense of Ukraine when Russia annexed Crimea in 2014. Instead the EU broached a range of sanctions including commercial measures targeted at specific sectors of Russia’s economy such as energy exploration financing and freezing assets of targeted individuals along with visa bans.<sup>4</sup> Moreover, the EU is not completely absent from geo-economics. The EU’s trade agreements externalize labor and environmental rules to the third countries. The regulatory and market power of the EU shape technical standards which undertakings across the world adopt. Under various circumstances, these practices of the EU can produce advantageous geopolitical value along with creating ease for doing business for the EU’s undertakings. For instance, the technology and

2 Leyen, Ursula von der. “Mission Letter to Joseph Borrell High Representative of the Union for Foreign Policy and Security Policy/Vice-President designate of the European Commission.” September 10, 2019.

3 Puglierin, Jana, and Niklas Helwig. “Europe's Geo-Economic Commission.” Berlin Policy Journal, October 9, 2019. <https://berlinpolicyjournal.com/europes-geo-economic-commission/>.

4 Leonard, Mark. “Introduction: Connectivity Wars.” Essay. In *Connectivity Wars: Why Migration, Finance and Trade Are the Geo-Economic Battlegrounds of the Future*, 13–27. London: European Council on Foreign Relations, 2016.

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industry standards, along with data rules that third countries and undertakings may adopt to gain access to the markets of the Union, can not only externalize the EU's values and security interests but can also support competitiveness of the undertakings based within the EU.<sup>5</sup> Thus, the EU holds great relevance within an international order engulfed by geo-economics. Despite its importance and power, the EU is prone to challenges from China. In her interview with *Die Zeit* in January 2019, Von Der Leyen said that the EU often overlooked how cleverly China pursued its goals. While talking rather openly about her views on China's politics, military and economy, she likened Russia's threat to China's influence. She added that the guide EU has for Russia must also apply to China. In comparison, former Commission President Jean-Claude Juncker, during his presidency of the Commission, trod carefully when it came to criticizing policies of China. He maintained a fine balance between China's politics and human rights and economic policies.<sup>6</sup> Similarly, where the rising influence of China offers great cooperation opportunities, it also poses a great challenge to the EU. It may not only threaten the EU's relations with other global powers but it may also create challenges for the EU in maintaining integration among the Union members. The EU and China maintain closer economic relations, yet they are antagonistic and distant when it comes to normative discourses.<sup>7</sup>

This discussion paper aims to address the main question of the China challenge to the European Union. In this context, firstly, it addresses the geo-economics of the EU. In order to understand geo-economics of the EU, it is pertinent to understand its geopolitics; therefore, this discussion paper also highlights the geopolitics of the EU. Moreover, it highlights what geo-e-

5 Gehrke, Tobias. "What Could a Geo-economic EU Look Like in 2020?" EGMONT Royal Institute for International Relations, 2020.

6 Lau, Stuart. "German Nominee for Top EU Job Could Be Tough on China." *South China Morning Post*, July 3, 2019  
<https://www.scmp.com/news/china/diplomacy/article/3017023/ursula-von-der-leyen-nominated-lead-european-commission-will>.

7 Christiansen, Thomas, and Richard Maher. "The Rise of China—Challenges and Opportunities for the European Union." *Asia Europe Journal* 15, no. 2 (April 2017): 121–31. <https://doi.org/10.1007/s10308-017-0469-2>.

nomic instruments the EU uses to pursue its interests in global affairs. Secondly, this research addresses the China challenge to the EU. In this regard, it highlights the relationship between the two and presents perspectives from both sides along with highlighting the China challenge to the EU's geo-economics. Lastly, this paper addresses the question of the EU's China challenge at home, within the EU discussing the 17+1 Initiative of China and its challenge to the EU.

### ***Understanding Geo-economics***

Edward N. Luttwak was the first to coin the term geo-economics. He theorized that the significance of military power in world affairs would steadily reduce with the waning of the cold war. As states are spatially defined entities structured to compete with each other in the global scenario to employ war logic in the grammar of commerce, thus they have to act geo-economically. Military methods are being replaced by methods of commerce i.e., firepower is replaced by disposable capital, technical military advancement is replaced by civilian innovation and bases and garrisons are replaced by market penetrations. However, the states will reorient themselves toward geo-economics rather than completely disappearing in world politics.<sup>8</sup> Moreover, in determining the subordination or primacy of states, economic power will be increasingly significant when military conflict between major powers is improbable. As opposed to an instrument for exceeding power competition, trade becomes a power competition instrument.<sup>9</sup> Geo-economics can be defined as state intervention in order to secure a privileged economic position in a market which results in the utilization of economic power instruments to achieve political gains. Geo-economics is the economics of geopolitics. Rather than territory, the power derives progressively from control over transportation corridors, financial institutions and strategic markets in a

8 Luttwak, Edward N. "From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce." *The National Interest* 20 (1990): 17–23.

9 Huntington, Samuel P. "Why International Primacy Matters." *International Security*, Spring, 17, no. 4 (1993): 68–83. <https://doi.org/10.2307/2539022>.

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globalized world with more lethal weapons and growing economic interdependence.<sup>10</sup> Moreover, it can also be defined as use of economic instruments to defend and promote national interests that as a result produce geopolitical benefits. Geo-economics is the use of economic instruments to achieve geopolitical goals.<sup>11</sup>

States use economic means to increasingly conduct their power politics in world affairs. Contrary to territory based geopolitics, geo-economics provides an alternative method to states to practice power politics instead of relying on military power. The predominant driver of world politics appears to be competition in which the methods used in order to engage in strategic competition by the states are not primarily military as often considered in academic debates, but are rather economic in nature. As a result of the Cold War, states would have given up power politics in favor of cooperative integration and foreign policy into rule-based liberal world order. These convictions of interdependence are still attractive in world politics. A simultaneous increase in strategic competition and interdependence has been witnessed in the past few years. Today, economic means largely derive such interdependence and strategic competition in world politics.<sup>12</sup> In a world with more destructive weapons and increasing economic interdependence, power derives progressively from control over transportation corridors, financial institutions and strategic markets rather than territory which is a main driver of geopolitics. In order to maximize their influence and autonomy, states gain power by building economic partnerships with disproportionate interdependence. Therefore, “balance of dependence” is conceptualized as Geo-economic equivalent of balance of power logic. States can obtain favorable symmetry by building a monopolistic position for their own undertakings to maintain the dependence of others along with denying them similar benefits. By obtaining political favors from dependent states, consequently states alter

10 Diesen, Glenn. *Russia's Geo-economic Strategy for a Greater Eurasia*. Routledge, 2017.

11 Blackwill, Robert D., and Jennifer M. Harris. *War By Other Means Geo-economics and Statecraft*. CFR, 2016.

12 Scholvin, Sören, and Mikael Wigell. “Geo-Economic Power Politics - An Introduction.” *Essay*. In *Geo-Economics and Power Politics in the 21st Century - The Revival of Economic Statecraft*, 1–13. London and New York: Routledge, 2019.

economic leverage into their political capital. Moreover, economic connectivity has become the primary method to obtain Geo-economic power in world politics.<sup>13</sup>

### ***Geo-Economics of the European Union***

The EU holds immense importance in the current geopolitics, as well as geo-economics, of the world. In order to understand geo-economics of the EU, it is pertinent to first take a glimpse at its geopolitics.

### ***Geopolitical Importance of the EU***

Contemporary geopolitics often tends to focus unsurprisingly on Asia and Africa, ranging from China to the Middle East. However, often limited to an economic and financial story, Europe is mistakenly left out of the focus when it comes to the discourse on current geopolitics. With its economy of 17 trillion USDs and a population of more than 450 million, the EU's economy is larger than the economy of the US and its population is the third-largest in the world after China's and India's respectively. Therefore, the focus of global political discourse should not leave the EU out; it should rather start with it.<sup>14</sup> This reflects the significance of the EU in contemporary geopolitics as well as geo-economics.

States competing for resources and power are the subjects of geopolitics in the classical sense. As a key instrument of international politics, the conjectures of interstate power struggles for resources pave the way for empirical focus of geopolitical writing on what statesmen do, think or say.<sup>15</sup> Owing to the growing attention on the role of Europe as an actor in the international

13 Diesen, Glenn. *Russia's Geo-economic Strategy for a Greater Eurasia*. Routledge, 2017.

14 Kaplan, Robert D. *The Revenge of Geography: What the Map Tells Us About Coming Conflicts and the Battle Against Fate*. New York: Random House Trade Paperbacks, 2013.

15 Kuus, Merje. "Policy and Geopolitics: Bounding Europe in EUrope." *Annals of the Association of American Geographers* 101, no. 5 (2011): 1140–55. <https://doi.org/10.1080/00045608.2011.577362>.



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arena mainly since the beginning of the new millennium, European politicians and the EU have started speaking eloquently about “European Geopolitics” or a distinctive geopolitical vision for the EU. Such political and popular attention to the significance of the EU’s geopolitics has been supported by the changing nature and dynamics of EU power.<sup>16</sup> The EU is a great geopolitical power which it can project through its Overseas Countries and Territories (OCTs). The OCTs have gained significant political meaning during a strategic repositioning of the EU and the geopolitical revival of the EU as a global power. What the EU can put claim to, no other power in the world can claim, the European Union is a global archipelago. The member states of the EU have territories which are spread across all the oceans and continents in the world. The European archipelago defined by its assets remains essential. The return of maritime geopolitics in the global affairs enhances the strategic significance of the European Archipelago exponentially. Europe’s strategic return to Asia-Pacific geopolitics via France, which firmly stood against China’s expansion in South China Sea or elsewhere and talked about Indo-Pacific, rebrands the region in Asia Pacific. This reinforces to the views that the EU holds a great geopolitical significance in world affairs.<sup>17</sup> The EU can make use of its geopolitical significance in its external relations and promote European interests and values around the world.

### ***The EU as a Multilateral and Ethical Normative Power***

In her Agenda for Europe as the Presidential candidate for the European Commission, Von Der Leyen put great emphasis on the EU’s multilateralism. She said that multilateralism was in Europe’s DNA as it was its guiding principle in world affairs. She added that her “Geopolitical Commission” would keep championing the EU’s multilateralism. Similarly, in her letter to High Representative Josep Borrel, she stressed upon the fact that the Union believed in multilateralism. The EU is all about working and cooperating

16 Bialasiewicz, Luiza. “Introduction: Europe in the World?” In *Europe in the World: EU Geopolitics and the Making of European Space*, 1–18. New York, NY: Routledge, 2016.

17 Kühnhardt, Ludger. *The European Archipelago: Rebranding the Strategic Significance of EU Overseas Countries and Territories*. Bonn: ZEI, 2019.

with others, therefore, it believes in multilateralism because it works towards this approach. Moreover, while stressing upon the importance of multilateralism, she highlighted that it makes the EU better by utilizing the major transitions of the time along with making it more prosperous and safer. Such multilateral approaches will make the Europe uphold the rule-based global order.<sup>18</sup> In order to stabilize the geopolitically contested regions in the world, the EU recognized the need for diplomatic initiatives in its 2016 Global Strategy. Such a strategy puts global governance on the agenda of the EU. In the 2016 Global Strategy, the EU identified effective multilateral cooperation as a vital interest along with democracy, prosperity and European Security. Therefore, multilateralism can and it definitely will, enable the EU gain a leadership role in the world order along with securing its own interests and promoting its values.<sup>19</sup> The EU must not give up on multilateralism. Its commitment to multilateral cooperation is not a fashion of the past. Rather it derives from the EU's nature. The EU will never be completely comfortable with global power politics due to its complex and diverse entity.<sup>20</sup> Therefore, the EU remains the torchbearer of multilateralism in global power politics.

What passes for normal in global politics has changed with the creative efforts of the European integration process. The EU has changed the normality of International Relations (IR) by simply existing as a different player in a world of states and the interstate relations among them. Such change in normality has made the EU a normative power. The EU has changed the prescriptions, standards and norms of world politics from the bounded state-

18 Leyen, Ursula Von Der. "A Union That Strives for More My Agenda for Europe: My Agenda for Europe," 2019.

Also, see "Mission Letter to Joseph Borrell High Representative of the Union for Foreign Policy and Security Policy/Vice-Presidentdesignate of the European Commission." European Commission, September 10, 2019.

19 Biscop, Sven. "The EU and Multilateralism in an Age of Great Powers." In *Multilateralism in a Changing World Order*, 39–48. Singapore: Konrad-Adenauer-Stiftung, 2018. Also see: "A Global Strategy for the European Union's Foreign And Security Policy." European Union, June 2016.

20 Lehne, Stefan. "How the EU Can Survive in a Geopolitical Age." Carnegie Europe - Carnegie Endowment For International Peace, 2020.

centric expectations.<sup>21</sup> The EU's external role is manifested in universal ethics discourse which delineates it as a "peacebuilder" and a "power for good" in world politics. The EU's emphasis on "force for good" has gone hand in hand with the acquisition of a military capability. Moreover, the EU seeks to develop a strategic role for Europe by looking to become capable of engaging in conflict prevention. By becoming a global player in world politics, the EU seeks to exercise its normative power proactively.<sup>22</sup>

However, this policy of the EU changed with the 2016 Global Strategy where the EU defined "Principled Pragmatism" as its policy method. With such a policy method, the EU is from its long-standing claim of being a normative power. This shift combined with hard power methods, complements EU's traditional multilateral creed.<sup>23</sup> The EU as a multilateral and ethical normative power promotes its values and interests in its geo-economics. Its use of geo-economic instruments is also based on rule-based principles.

### ***Geo-economics of the European Union***

The EU is a regulatory super power. It is the largest single market in the world, so in order to gain access to the region, most multinational undertakings have to comply with EU standards. In the economic realm, the EU has utilized its regulatory power at various times such as challenging the US agribusiness on the continent of Africa and other markets over the usage of genetically modified organisms, forcing Microsoft to unbundle its Explorer browser and blocking the merger of General Electric and Honeywell. Such export of regulations is not only limited to the economic realm. It has been extended into political issues such as climate change and most obviously on the process of accession into the EU and neighborhood policy. Theoretically, the EU would perform better in a geo-economic world rather than in a classic geopolitical world. The EU is an economic giant. It is located at the heart of

21 Manners, Ian. "The Normative Ethics of the European Union." *International Affairs* 84, no. 1. 2008: 45-60. <https://doi.org/10.1111/j.1468-2346.2008.00688.x>.

22 Aggestam, Lisbeth. "Introduction: Ethical Power Europe?" *International Affairs* 84, no. 1 (2008): 1-11. <https://doi.org/10.1111/j.1468-2346.2008.00685.x>.

23 Kühnhardt, Ludger. *The New Silk Road: The European Union, China and Lessons Learned*. Bonn: ZEI, 2018.

80-state Eurosphere that are dependent on it for investment and trade and align themselves with the Euro currency.<sup>24</sup> Therefore, the EU is a regulatory superpower. Within the context of the EU's Common Foreign and Security Policy (CFSP), the great significance of the EU's geo-economics is vividly visible where the application of geo-economic instruments such as economic integration agreements (EIA) and the financial sanctions to achieve geopolitical objectives are among the most popular and tangible external actions of the EU. To a certain extent, the willingness of the Union to use geo-economic instruments has been parallel with a reorientation of the EU both at the EU institutional as well as at the European Capital level.<sup>25</sup>

### ***EU's Use of Geo-economic Instruments***

In terms of their geopolitical application in contemporary world politics, there are seven geo-economic instruments. The seven geo-economic instruments are: 1. Trade policy, 2. Investment policy, 3. Financial Aid or Economic Assistance, 4. Financial Sanctions, 5. Cyber, 6. Financial and monetary policy, and 7. National Policies Governing Energy and Commodities.<sup>26</sup> All instruments are discussed below along with their application within the context of the EU.

#### ***1. Trade Policy***

The difference between geo-economic and economic logic would seem fairly clear in the realm of trade. The trade policy with an economic approach would pursue profit maximization of the states involved in trade without giving much consideration to factors which are not eco-

24 Leonard, Mark. "Introduction: Connectivity Wars." Essay. In *Connectivity Wars: Why Migration, Finance and Trade Are the Geo-Economic Battlegrounds of the Future*, 13–27. London: European Council on Foreign Relations, 2016.

25 Olsen, Kim B. "The Domestic Challenges of European Geo-economic Diplomacy." *Stiftung Wissenschaft und Politik (SWP)*, 2017.

26 Blackwill, Robert D., and Jennifer M. Harris. *War By Other Means Geo-economics and Statecraft*. CFR, 2016.

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conomic in nature. On the other hand, the trade policy with a geo-economic approach would seek to achieve not only profit maximization but will also seek to maximize political (geopolitical) returns owing to the trade policy. In a geo-economic approach, states might chose specific partners for trade and arrange trading agreement terms to weaken opponents, favor certain constituencies and strengthen allies and so forth. These states might introduce such trade terms at the cost of profit maximization deviating from the logic of total absolute gains maximization approach which is the core of economic approach of trade policy.<sup>27</sup> The EU holds immense importance when it comes to trade. The Union is the third largest global trade player following the US and China respectively. The EU's trade with the world accounts for approximately 15.6% of the world's exports and imports. As the top trading partner of 80 countries, the EU member states have the second largest share of global exports and imports of goods in the world. Moreover, the EU is also one of the most outward-oriented economies in the world. Besides this, it is also the largest single market area of the world. One of the founding principles of the Union was free trade among its member states which the EU is committed to opening up to world trade. The EU negotiates trade agreements for the member states and is also responsible for their trade policy. Moreover, based on the World Trade Organization (WTO) rules, the EU has exclusive power to conclude international trade agreements and legislate trade matters on behalf of it member states. The Union's trade policy does not only cover trade in goods and services but it also covers matters of commercial aspects of foreign direct investment and intellectual property rights. In order to protect EU businesses from barriers to trade, the Union has enacted market access and trade defense instruments. Additionally, the EU also assists developing countries (such as Pakistan) to trade within the EU by means of support programs and lower duties under the EU's Generalized Scheme

27 Rose, Gideon. "Trade." Essay. In *The Age of Economic Coercion: How Geopolitics Is Disrupting Supply Chains, Financial Systems, Energy Markets, Trade and the Internet*, 11–12. World Economic Forum, 2016.

of Preferences (GSP). Products entering into the EU market from vulnerable developing countries are duty free under the EU's GSP policy. Such EU policy helps the developing countries create jobs and alleviate poverty based on international principles and values including human and labor rights. There are three types of EU trade agreements. The first type of the EU trade agreement is the Customs Union which establishes a joint customs tariff for foreign importers and eliminates customs duties in bilateral trade. The example would be the EU Customs Union with Turkey which is in force since 1995. The second type of EU trade agreement are Stabilization Agreements, Association Agreements, Economic Partnership Agreements and (Deep and Comprehensive) Free Trade agreements. Such trade agreements reduce or completely remove custom tariffs in bilateral trade. The examples of such agreements are the EU-Republic of Korea Free Trade Agreement which was signed in 2010, Association Agreement with Ukraine which was concluded in 2017 and replaced the EU-Ukraine Partnership and Cooperation Agreement and Stabilization and Association Agreement with Montenegro which is in force since 2010. The last type of EU trade agreement are Partnership and Cooperation Agreements, which leave customs tariffs as they are and provide a general framework for bilateral economic relations. An example of such agreement is the EU-Russia partnership and cooperation agreement which is in force since 1997 and provides a framework for EU-Russia relations. Another important partnership agreement is the Cotonou Agreement which is the backbone of the partnership between the EU, EU countries and 79 African, Caribbean and Pacific Countries (ACP). The Cotonou Agreement is in place since 2000 and will terminate at the end of 2020.<sup>28</sup>

28 Various Sources available on the EU Official Website. Accessed September 2020. [https://ec.europa.eu/info/index\\_en](https://ec.europa.eu/info/index_en).

Note: It was pertinent to briefly highlight the types of EU agreements with some examples in order to describe EU's trade policy as its Geo-economic instrument. However, it is beyond the limit of this discussion paper to analyze them in detail.

## 2. *Investment Policy*

In the year 2014, the 90 percent of all cross-border flows were financial investments which were trade-based forty years ago. Either as a long term direct investment or as a short term more liquid portfolio investment, a huge part of current cross-border flows comes from investment. From the perspective of geo-economics, investment matters more today than it mattered previously because both in absolute and relative terms, there is plainly a great deal of it passing among the states. Today the patterns of investment, the capitals of capital so to speak, are different from the previous eras. Moreover, states today directly control or own a greater share of the cross-border investment as compared to the past. Owing to this direct control by the states, concentration of the outbound foreign direct investment has now extended beyond the investments into the energy sector. All kinds of state owned investment vehicles and companies are investing abroad and in many instances as an effort of state-financed campaigns. A greater diplomatic sway comes with such investments abroad and the plausibility of geopolitical leverage at times of crisis.<sup>29</sup>

The Union is world's top global destination and the main provider of foreign investment. By the end of 2018, the foreign direct investment (FDI) stocks that were held in rest of the world by investors based in the EU amount to 8,750 billion euros. Meanwhile, those held by the investors of third countries in the EU amounted to 7,197 billion euros by the end of 2018. The EU handles FDI on behalf of its member states since 2009. The stated aims of the EU's investment policy are to create a transparent and predictable business environment in order to make it easier for others to invest, to regulate the economies in the public interest in order to preserve home and host countries, to protect the EU's vital interests while attracting international investments into the EU, to protect EU investors abroad from mistreatment and discrimination by

29 Blackwill, Robert D., and Jennifer M. Harris. *War By Other Means Geo-economics and Statecraft*. CFR, 2016.

securing a level playing field and most importantly, to promote investments that respect environmental and labor standards, respect human rights and support sustainable development.<sup>30</sup>

High Representative of the Union for Foreign Affairs and Security Policy in its joint Communication Report, “Connecting Europe and Asia - Building blocks for an EU Strategy” highlighted the importance of the EU financing for connectivity. It highlighted that in supporting connectivity, the Union already has a solid track record. Geographical investment facilities such as Asia Investment Facility (AIF), Investment Facility for Central Asia (IFCA) and the Neighborhood Investment Facility (NIF) have been providing technical and financial assistance for connectivity and infrastructure. Between 2010 and 2018, more than 4.2 billion euros of investments have been leveraged in the AIF and IFCA through a blending of grants and loans. The Commission’s proposal of several innovative measures could provide impetus for public and private investment in connectivity for the next MFF 2021-2027. In order to provide financing to catalyze other public and private capital, such investments could include an investment framework for external action, working on the existing European Fund for Sustainable Development which as a part of the External Investment Plan of the EU focuses on the Neighborhood and Africa. Despite its primary focus on the neighborhood and Africa, a part of the investment can also be allocated to other geographical regions, the report added.<sup>31</sup> However, it is unclear whether with such a plan the EU will be able to gain political leverage. Since the current “Geopolitical Commission” seeks a global role for the EU, it can utilize EU’s External Investment Plan as a geo-economic instrument for geopolitical leverage.

30 “Investment - Trade - European Commission.” European Commission Directorate-General for Trade, 2020. <https://ec.europa.eu/trade/policy/accessing-markets/investment/>.

31 Commission, European. “Connecting Europe and Asia - Building blocks for an EU Strategy.” European Commission, 2018. <https://www.eesc.europa.eu/en/our-work/opinions-information-reports/opinions/connecting-europe-and-asia-building-blocks-eu-strategy>



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In addition to this, as a source of global foreign direct investment stocks; the EU contributes the most with 38 percent of such investments followed by the US with 21 percent and China with just 6 percent. Despite this huge contribution to the global FDI stocks, the EU is frequently referred to as a payer than a player, failing to gain geopolitical leverage out of this massive contribution for years.<sup>32</sup> Thus, it can be summed up from the investment policy of the EU that the element of politics is absent from its geo-economics. However, from one of the aims of the EU's investment policy, it can be observed that the EU's investment policy follows the rule-based policy which manifests that the EU is a normative power and may contribute to the EU's soft power.

### *3. Financial Aid or Economic Assistance*

The practice of providing financial assistance to gain strategic influence is one of most manifested illustrations of geo-economic instruments and has been around as long as the diplomacy itself. This financial aid can be in the form of humanitarian assistance, bilateral development assistance or military aid. It is pertinent to ensure that most humanitarian or military aid is geo-economic only in the broader sense because the aid received is fungible which means that the financial assistance a state receives can enable it to save or redirect those funds that it would have spent otherwise from its own resources. Such fungibility of financial aid makes it worth including in the conceptual framework of geo-economics. However, financial aid can also be included in the conceptual framework of geo-economics for other reasons. On the one hand, there are instances where humanitarian and military aid comes with geo-economic foundations that do not stick to mere fungibility of official aid received by the state. On the other hand, there are instances where aid comes with no geo-economic aspect to it. However, it can overlap with

32 Vlahutin, Romana. "Reconnected: How the EU Can Assert Its Sovereignty after the Pandemic." ECFR, April 21, 2020. [https://www.ecfr.eu/article/commentary\\_reconnected\\_how\\_the\\_eu\\_can\\_assert\\_its\\_sovereignty\\_after\\_the\\_pand](https://www.ecfr.eu/article/commentary_reconnected_how_the_eu_can_assert_its_sovereignty_after_the_pand).

other vivid aspects of geo-economic statecraft.<sup>33</sup> The EU is a major financial aid provider in the world. The EU and its member states have provided around 414 billion euros in aid globally in its current seven-year budget cycle. This global aid by the EU is much higher than that of the US which provided aid of 173 billion euros in global aid and approximately 460 billion euros by China which can be considered as mere concessional loans but they cannot be considered as financial aid.<sup>34</sup> The EU is leading in the provision of official development assistance (ODA) to many states across the world. The external action budget of the EU helps it to implement its priorities and to advocate the fundamental values such as human rights, poverty reduction, solidarity, peace, democracy, stability and sustainable development in the world. Its expertise and competence such as its economic and political clout, the geographic range of its external cooperation and its credibility as a peace player add value to its intervention in external actions. Moreover, the EU's external financial action will be covered under Heading 6, 'Neighborhood and the World' in the next seven-year EU's budget from 2021-2027 which would replace heading 4, 'Global Europe'. The total expenditure of the current EU budget was set at 1087 billion euros out of which 66.2 billion euros were to be spent under Heading 4 which includes development assistance and humanitarian aid. Most of the EU's external financing instruments (EFIs) are covered under Heading 4 of the current budget. Some of the EFIs are Development Cooperation Instrument (DCI) which focuses on Asia, South Africa, the Gulf region and Latin America, Instrument for Pre-Accession (IPA) which focuses on Western Balkans and Turkey and provides pre-accession assistance, Instrument for Democracy and Human Rights (EIDHR) which focuses on the promotion of human rights and democracy, and European Neighborhood Instrument (ENI) which focuses on 16 neighboring countries along with Russia for cross-border and regional cooperation. Moreover,

33 Blackwill, Robert D., and Jennifer M. Harris. *War By Other Means Geo-economics and Statecraft*. CFR, 2016.

34 Vlahutin, Romana. "Reconnected: How the EU Can Assert Its Sovereignty after the Pandemic." *ECFR*, April 21, 2020. [https://www.ecfr.eu/article/commentary\\_reconnected\\_how\\_the\\_eu\\_can\\_assert\\_its\\_sovereignty\\_after\\_the\\_pand](https://www.ecfr.eu/article/commentary_reconnected_how_the_eu_can_assert_its_sovereignty_after_the_pand).

the biggest external financing instrument is the European Development Fund (EDF) which is outside of the Multi-financial framework (MFF) and the EU budget and is managed by the Commission. With a budget of 30.5 billion euros, the EDF is an intergovernmental fund which focuses on Overseas Countries and Territories (OCTs) and African, Caribbean and Pacific (ACP) countries. However, the rules of implementation of EDF are similar to those of the other EFIs.<sup>35</sup> The EU may not use its EFIs as its geo-economic instruments; however, it can overlap with other vivid aspects of geo-economic statecraft of the EU. Moreover, provision of financial aid gives the EU leverage to promote its rule-based values.

#### 4. *Financial Sanctions*

Financial sanctions are a classic instrument of geo-economics. When sanctions are imposed, they cannot only redirect international trade flows but can also impoverish the population, may change the regime, lead to a possible uprising or affect the technological development of the country. While highlighting the effectiveness of sanctions, it is argued that the detriment of sanctions on a domestic market of the state depend on the trade flow and market size.<sup>36</sup> Though the financial sanctions have been imposed in the EU's foreign policy since the 1980s, it is only a recent phenomenon that EU citizens have woken up to the imposition of sanctions in foreign policy of the EU. Following the establishment of the EU's Common Foreign and Security Policy (CFSP), an intergovernmental forum for foreign policy coordination, in 1992, the imposition of financial sanctions have become more frequent. While in 1999, the Common Security and Defence Policy (CSDP) was launched with the intention to break new ground in the EU's foreign policy by permitting the Union to carry out joint military operations, but it was financial sanctions that took central stage in the EU's foreign policy. In order to address the EU's key foreign and security policy

35 Lilyanova, Velina. "Financing EU External Action in the New MFF, 2021-2027 Heading 6 'Neighbourhood and the World'." European Union, 2019.

36 Damen, Mario, and Wolfgang Iglar. "Free Trade or Geo-Economics? Trends in World Trade." European Parliament, 2019.

challenges, financial sanctions are wielded instead of military force.<sup>37</sup> In pursuit of international political influence the EU beyond doubt has demonstrated that it can utilize its resources in a targeted manner. Having been used frequently over the last two decades, sanctions are one of most robust tools of European Diplomacy. However, the EU's use of sanctions have not frequently occurred without the UNSC authorization, particularly when it comes to imposing sanctions on a permanent member of the Security Council or its close allies.<sup>38</sup> Moreover, since the so-called 'sanctions decade' of the 1990s, sanctions have been on the rise in the EU's foreign policy. Currently the EU upholds approximately 35 regimes of financial sanctions ranging from financial restrictions against targeted countries, travel bans against listed individuals to trade embargoes and asset freezes. The most recent examples of the EU financial sanctions are the sanctions against Russia after the annexation of Crimea in 2014 and the sanctions targeting the nuclear programs of North Korea and Iran.<sup>39</sup>

Similarly, sanctions are also an important weapon in the hands of Von Der Leyen's "Geopolitical Commission". The sanctions are the most potent weapon in the hands of the EU. Under the Juncker Commission, the EU High Representative Federica Mogherini was in charge of the European Commission's unit which looked after the implementation of the embargoes by the member states. However, in Von Der Leyen's Commission, the sanctions officials got a new mission along with a new boss. The sanctions officials now have to fight for the EU's "economic sovereignty" under the auspices of executive Vice-President Vladis Dombrovskis for the economy. These officials are supposed to ensure

37 Portela, Clara. "How the EU Learned to Love Sanctions ." Essay. In *Connectivity Wars: Why Migration, Finance and Trade Are the Geo-Economic Battlegrounds of the Future*, 36–42. London: European Council on Foreign Relations, 2016.

38 Lippert, Barbara, Nicolai von Ondarza, and Volker Perthes. "European Strategic Autonomy - Actors, Issues, Conflicts of Interests." SWP Berlin, 2019.

39 Olsen, Kim B. "The Domestic Challenges of European Geo-economic Diplomacy." Stiftung Wissenschaft und Politik (SWP), 2017.

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that Europe is more robust to the peril of extraterritorial sanctions.<sup>40</sup> Thus, the financial sanctions are a strong weapon in the hands of the EU not only for its geo-economic statecraft but also for it to pursue its ruled-based values and interest in its external affairs.

### 5. Cyber

Even though much remains uncertain about the precise magnitude and nature of cyberattacks, there still remains good reason to consider cyberattack as among the most powerful newest instrument of geo-economics. Not all cyber related attacks can be considered geo-economic in nature. A cyberattack needs to meet two basic criteria in order to be considered of geo-economic nature. Firstly, since geo-economics is essentially concerned with state behavior, the cyber related attack must be sponsored or at least materially encouraged by the state. Secondly, there must be involvement of an attempt to gain economic influence. A cyberattack aimed to wreak economic havoc in the targeted state by disrupting its internet would be considered geo-economic in nature. However, a mere cyberattack for the sake of reading emails would not be considered as such. Moreover, cyberattacks seeking to impose financial cost and utilizing financial or economic market mechanism as part of a larger political agenda can be considered as geo-economic cyberattacks. In order to be considered as a geo-economic cyberattack, an attack must involve the component of creating potential or actual geopolitical benefits for the attacking country which aims to compromise or degrade a state's critical financial or economic infrastructure.<sup>41</sup> The EU is aware of the significance of the cyberspace. Instead of getting involved in cyberattacks to wreak havoc in other states' economies for geopolitical advantage, the Union has taken measures to secure its cyberspace and protect the data of individuals and undertakings. As a re-

40 Puglierin, Jana, and Niklas Helwig. "Europe's Geo-Economic Commission." Berlin Policy Journal, October 9, 2019. <https://berlinpolicyjournal.com/europes-geo-economic-commission/>.

41 Blackwill, Robert D., and Jennifer M. Harris. *War By Other Means Geo-economics and Statecraft*. CFR, 2016.

sult, those measures give geopolitical leverage to the EU. The EU introduced General Data Protection Regulation (GDPR) in 2016 which came into force in 2018 and provides rules regarding personal data protection and the free movement of personal data (Article 1, paragraph 1 of GDPR).<sup>42</sup> The GDPR can play a fundamental role in shaping how modern digital economies protect citizens' security and do business. Such a regulation may compel third countries and their undertakings to adopt similar data protection standards or else face restrictions on trading cross border data. Moreover, this regulation has risen to a strategic significance in geo-economic competition. Voluntary or involuntary, the adoption of certain EU standards is an expression of the EU's power to play its role in a contested world order. This expression of the EU's power may not only strengthen its economic competitiveness but it may also promote European security (e.g., 5G network standards) and European values (e.g., ethics of Artificial Intelligence). Though all standards may not be of strategic significance but the trade rules and other regulations of the GDPR may offer geopolitical benefits to the Union by producing sphere of influence for it.<sup>43</sup> Besides GDPR, the EU has adopted the Cybersecurity Act in 2019 which aims to ensure proper functioning of the internal market while aiming to achieve a high level of trust within the Union, cyber resilience and cybersecurity (Article 1, paragraph 1 of Cybersecurity Act). Along with this, the EU has also developed "A Digital Single Market Strategy for Europe" (2015) with the aim of ensuring that Europe's society, industry and economy take complete advantage of the new era of digitalization.<sup>44</sup> Therefore, the

42 Regulation (EU) 2016/679 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation). 2016. Official General. L 119 <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016R0679&from=EN>

43 Gehrke, Tobias. "What Could a Geo-economic EU Look Like in 2020?" EGMONT Royal Institute for International Relations, 2020.

44 "A Digital Single Market Strategy for Europe." European Commission, 2015. Also, see "A Digital Single Market Strategy for Europe." European Commission, 2015. <https://eurlex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52015DC0192&from=EN>

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EU as a normative power has adopted a different but positive geo-economic cyber strategy which not only aims to achieve geopolitical influence for the EU but also creates a win-win situation for third countries and their undertakings who want to engage with the Union.

### 6. *Financial and Monetary Policy*

Global debates about quantitative easing along with a rising renminbi (RMB), a Euro that may continue to mature over the years and a set of countries agitating for a smaller role of the US dollar, are reasons to consider that over the upcoming year the geopolitics of financial and monetary policy may resurface in a sharpened form. There are three basic transmission channels that states can utilize to translate monetary policy instruments into geopolitical influence: 1. The ability to raise funds at low cost; 2. The global footprints of a country's currency; 3. The ability to impact another state's borrowing costs. Moreover, the Euro's launch in 2001 was hailed as the biggest development in world currency markets since the 1944 Bretton Woods Conference. It marked for Europe the beginning of a new era.<sup>45</sup> In this context, German Chancellor Helmut Schmidt's speech in the German Bundesbank in 1978 during the European Council gathering which initiated the European Monetary System (EMS) holds utmost importance. Chancellor Schmidt urged the central bankers of Germany to encourage a European monetary union vividly highlighting that that was an issue of geopolitics above all.<sup>46</sup> The Euro, from the beginning, has been a project to advance Europe's interests in the global economy. Its international role as an external dimension of the Euro remains significant to the Union. On the world stage, the Euro as a single currency is a symbol of European Unity. The Euro is an instrument to contribute to the stability of the international financial system and the global economy along with

45 Blackwill, Robert D., and Jennifer M. Harris. *War By Other Means Geo-economics and Statecraft*. CFR, 2016.

46 Schmidt, Helmut. "Document - Policy Statement by Federal Chancellor Helmut Schmidt on the Results of the Session of the European Council in Brussels, December 6, 1978." GHDI, 1978 .  
[https://ghdi.ghi-dc.org/sub\\_document.cfm?document\\_id=1168](https://ghdi.ghi-dc.org/sub_document.cfm?document_id=1168).

global security standing. The development and the international role of the Euro increases the strategic significance of the geopolitics of European Financial Markets. Despite being a young currency, Euro is the world's second most important currency after the US dollar. With approximately 36% of the international payments, the Euro is second to the US dollar with almost 40% of international payments.<sup>47</sup> The Euro with about 22% share, is the second international currency after the US dollar and significantly far ahead of other currencies such as Pound Sterling (5%), Japanese Yen (5%), and Chinese Renminbi (1%).<sup>48</sup> Despite the fact that the Euro, with a strong regional reach, is an important international currency, it still has a long way to go to challenge the US dollar dominance in the global economy. Thus, the EU needs to enhance its geo-economic strategy vis-à-vis financial and monetary policy to further strengthen the role of the Euro in the world economy.

### *7. National Policies Governing Energy and Commodities*

In order to help with all sorts of geopolitical needs, states enlist energy or commodities (such as oil, gas etc.). The symbolic case tends to be objectively blatant coercion. To make for effective geo-economic instruments, energy and commodities need to be coercive. However, for some states they can be a sort of insurance policy to help them secure their interests.<sup>49</sup> The oil producers' geo-economic power has been blunted in the energy market due to their hegemonic play. Owing to attempts to hedge against overdependence on a single source of energy, the revolution in unconventional energy and the slowing demand has

47 Strauch, Rolf. "The Geopolitics of European Financial Markets - Speech by Rolf Strauch." European Stability Mechanism, 2019.

<https://www.esm.europa.eu/speeches-and-presentations/geopolitics-european-financial-markets-speech-rolf-strauch>.

48 Leonard, Mark, Jean Pisani-Ferry, Elina Ribakova, Jeremy Shapiro, and Guntram Wolff. "Redefining Europe's Economic Sovereignty." European Council on Foreign Relations, 2019.

49 Blackwill, Robert D., and Jennifer M. Harris. *War By Other Means Geo-economics and Statecraft*. CFR, 2016.



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weaponized the consumer nations to use energy demand in their favor against the energy producers.<sup>50</sup>

The EU member states are dependent on energy imports in order to meet their energy needs. The largest imported energy product by far is crude oil which was approximately 71.7% of the total EU energy imports in 2019 followed by natural gas which accounted for approximately 15.4%. Moreover, the largest supplier of the natural gas and oil to the EU in 2019 was Russia.<sup>51</sup> The Union's efforts to achieve a carbon-neutral economy provide a timely and unique opportunity to strengthen the energy security of the EU. Commission President Von der Leyen's proposal, "European Green Deal" seeks to transform the EU into climate-neutral economy by 2050 and is EU's new growth strategy. It also has great potential to strengthen the energy security of the EU provided its member states prioritize energy security and put considerable effort into reducing their carbon emission.<sup>52</sup> As an importer of energy and commodities, the EU does not have much leverage to set geo-economic strategy vis-à-vis energy and commodities. However, if the Union manages to reduce its energy dependency on Russia and rely more on renewable energy, it can be in position to set geopolitical targets even as an energy consumer.

### ***The China Challenge to the EU***

Although formal relations between the EU and China began in 1975, the relations between the two became stronger from the 1990s onwards after China's opening up and reform policy. Since 1998, when the first EU-China

50 Leonard, Mark. "Introduction: Connectivity Wars." Essay. In *Connectivity Wars: Why Migration, Finance and Trade Are the Geo-Economic Battlegrounds of the Future*, 13–27. London: European Council on Foreign Relations, 2016.

51 Eurostat. "EU Imports of Energy Products - Recent Developments." Eurostat Statistics Explained, 2020. [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=EU\\_imports\\_of\\_energy\\_products\\_-\\_recent\\_developments](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=EU_imports_of_energy_products_-_recent_developments).

52 Morningstar, Richard L, Andras Simonyi, Olga Khakova, and Irina Markina. "European Energy Diversification: How Alternative Sources, Routes, and Clean Technologies Can Bolster Energy Security and Decarbonization." Atlantic Council, January 2020.

Summit took place, relations between the two have been institutionalized with several meetings taking place every year including annual summits. In 2003, the EU and China declared – a Comprehensive Strategic Partnership. Given that the two sides account for approximately 30 percent of world trade, EU-China relations are one of the most important relations in the world. From political-strategic, economic and people to people dialogues, the relations between the two have developed into very regular and dense interaction at multiple levels despite the various differences in values and political systems. When Chinese President Xi Jinping visited the EU institutions in 2014 – the first ever visit to the EU institutions by any Chinese President – the relationship received a boost from a diplomatic point of view.<sup>53</sup> One of the most important relationships of the 21<sup>st</sup> century is the relationship between the EU and China. The EU and China enjoy multiple links with each other and are vast trading partners. There are dialogues across almost every sector including sustainability, civil society and culture from the member states to the regions and right up to the central administration of the EU.<sup>54</sup> However, despite the linkages between their economies, the partnership between the two presents political challenges. Both economies represent one-third of the world's gross domestic product (GDP) and are partners in a way that their economies are interlinked.<sup>55</sup>

### ***China's EU Policy***

China has published three policy papers in 2003, 2014 and 2018 respectively on the EU. All three policy papers focused on political, economic as well as cultural dimensions of the China-EU relations.

The EU is a major global force, according to China's first paper on the EU, entitled "China's EU Policy Paper" and published in 2003 highlighted

53 Christiansen, Thomas, Emil Kirchner, and Uwe Wissenbach. *The European Union and China*. London: Red Globe Press, 2019.

54 Brown, Kerry. "Introduction." Essay. In *The EU-China Relationship: European Perspectives: A Manual for Policy Makers*. London: Imperial College Press, 2015.

55 Farnell, John, and Paul Irwin Crookes. *The Politics of EU-China Economic Relations An Uneasy Partnership*. London: Palgrave Macmillan UK :Imprint: Palgrave Macmillan, 2016.

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China's objectives in its EU policy and charted plans and areas for cooperation and related measures to promote a long-term and stable development of the China-EU relations and to enhance all-round cooperation. The policy paper further highlighted that China attaches significance to the influence and role of the Union in international as well as regional affairs. It also said that enhancing and strengthening China-EU relations is a significant component of Chinese foreign policy. Due to China's proclaimed commitment for full, long-term and stable partnership with the EU, the policy paper highlighted the political, economic and cultural objectives of China's EU policy. In all broad objectives, the policy paper highlighted the terms "Principles of Mutual Respect" for political objectives, "Principles of Mutual Benefits" for economic objectives and "Principle of Mutual Emulation" for cultural objectives. This describes China's idea of EU policy serving the interests of both sides. However, despite these clear objectives, the policy paper underlined that owing to differences in political system, historical background, economic development and cultural heritage, there would be differences and disagreements on some issues which China believed (and still believes) can be solved with mutual respect. Regarding the One-China Policy, human rights dialogue and the Hong Kong, Macao and Tibet issue, the Policy paper drafted China's terms for the EU. This stance was also followed in policy papers of 2014 and 2018 respectively. Furthermore, China was committed to developing a stable and long-term trade and economic cooperation with the Union and expected the EU would become its largest investment and trading partnership.<sup>56</sup>

The second paper, "China's Policy Paper on the EU: Deepen the China-EU Comprehensive Strategic Partnership for Mutual Benefit and Win-Win Cooperation" published in 2014 highlighted that for the EU, China was its second largest trading partner while for China; the EU had been its top trading partner for 10 years after the Comprehensive Strategic Partnership. It also highlighted that both China and the EU collectively account for one third of

56 "China's EU Policy Paper." Ministry of Foreign Affairs of the People's Republic of China, 2003.  
[https://www.fmprc.gov.cn/mfa\\_eng/topics\\_665678/ceupp\\_665916/t27708.shtml](https://www.fmprc.gov.cn/mfa_eng/topics_665678/ceupp_665916/t27708.shtml).

the world's economy which makes them two key markets for common development. The policy paper's main emphasis was on Mutual Benefit and Win-Win Cooperation in order to deepen the China-EU Comprehensive Strategic Partnership which would contribute to prosperity and peace around the world along with providing impetus for the further development of both China and the EU. Unlike the first policy paper in which China considered the EU as a major global force, China termed the EU as its significant strategic partner in its pursuit of multi-polarity of the world. Moreover, the policy paper also portrayed that the EU is considered as one of the significant investment trade partners for China.<sup>57</sup>

The third policy paper "China's Policy Paper on the European Union" published in 2018 highlighted that the EU remained China's largest trading partner for 14 consecutive years. For China, developing a sound relation with the Union has long been a priority of its foreign policy. Moreover, it highlighted the EU's importance in the world affairs and said that the Union strategically played a significant role in the international arena. The policy paper vis-à-vis economic domain of China-EU relations highlighted that the both sides should unlock cooperation potential, deepen dialogues on macroeconomic and trade policies and ensure win-win progress of China-EU trade and economic relations. It further highlighted that the frictions and disagreement can be handled in a constructive manner and both sides must avoid politicizing trade and economic issues.<sup>58</sup> Despite China's strong stance on mutual and win-win strategic partnership, it wants to maintain political relations with the EU on its own terms. China wants the EU to follow its positions on the issues of Taiwan, Hong Kong, Macao and Tibet and human rights. China wants the EU to abide by One-China policy which for China is a significant political ground of China-EU relations.

57 "China's Policy Paper on the EU: Deepen the China-EU Comprehensive Strategic Partnership for Mutual Benefit and Win-Win Cooperation." Ministry of Foreign Affairs of the People's Republic of China, 2014.

[https://www.fmprc.gov.cn/mfa\\_eng/wjdt\\_665385/wjzcs/t1143406.shtml](https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/wjzcs/t1143406.shtml).

58 "China's Policy Paper on the European Union." Ministry of Foreign Affairs of the People's Republic of China, 2018.

[https://www.fmprc.gov.cn/mfa\\_eng/wjdt\\_665385/2649\\_665393/t1622890.shtml](https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1622890.shtml).

### ***The EU's China Challenge***

The EU, on its progress towards global power status, faces claims by others, mainly from China. On the one hand, the EU is following its strategic objectives, increasing its global presence and scope of its actions, China, on the other hand, is filling the vacuum that existed between a state's factual content and its formal status in the world. In addition to this, China's Belt and Road Initiative (BRI) also challenges the EU in various ways ranging from regional self-image to policy preferences economically, culturally and conceptually. The EU does not have an engaging policy response to China's far reaching BRI strategy. Along with China's increased quality and productivity, its competitiveness for jobs is persistently growing. China, with its success, seems increasingly to threaten the EU's affluence. The EU's absence of economic interests in Asian regions (such as North East Asia) is surprising and it vividly manifests the limits for its global role.<sup>59</sup> Furthermore, China's international drive has already impacted many states across the world ranging from Middle East to Europe and from Asia to Africa. If China succeeds, it would be easy to anticipate long-term connectivity dimensions for China. China, with capital surplus and industrial capacity, wants to build road and maritime networks. Along with these networks, new financial institutions and mechanisms including BRICS' New Development Bank (NDB) and Asian Infrastructure Investment Bank (AIIB) would play a significant role in this regard.<sup>60</sup> Furthermore, according to a European Political Strategy Center (EPSC) Brief, "Geopolitical Outlook for Europe" published on June 08 2019, a bolstered China, which has started to flex in a world of flux, will be a long-term challenge for Europe. The EU will be challenged to defend

59 Kühnhardt, Ludger. *The New Silk Road: The European Union, China and Lessons Learned*. Bonn: ZEI, 2018. And also: *European Union-The Second Founding: the Changing Rationale of European Integration*. 2. Revised edition. Baden-Baden: Nomos, 2010.

60 Corre, Philippe Le. "China's Rise as a Geo-economic Influencer: Four European Case Studies." *Carnegie Endowment For International Peace*, October 2018.

its fair market access and support for fundamental human rights which China has allegedly been abusing.<sup>61</sup>

Economic factors have dominated relations between the EU and China ever since the beginning of their relationship in 1970s and this is likely to continue for the immediate future. Regarding human rights disputes, it is argued that in its relations with China, the EU has put an emphasis on a normative agenda and portrayed itself as a ‘force for good’, however, China, on the other hand, insists on its own sovereign decision-making and development path. Thus, it is pertinent to discuss whether China is a strategic partner or a challenger for the EU.<sup>62</sup>

### ***China: A Strategic Partner or a Challenger for the EU?***

Since the establishment of diplomatic ties between the EU and China in 1975, the relations between the two have developed rapidly. As the result of 2003 EU-China “Comprehensive Strategic Partnership”, the cooperation between the two has broadened and deepened in different areas including peace and security, sustainable development, prosperity and people-to-people exchange. All these areas encompass different key initiatives.<sup>63</sup> Over the last three decades, the relationship between the EU and China has become more extensive and intensive. The Comprehensive Strategic Partnership was anticipated to uplift the relationship between the two to the security and political domains from the erstwhile limited to the economic domain only. This strategic partnership with China shows that the EU was ready to adopt a greater leadership role in international affairs along with supporting China’s integration into the existing world order. Meanwhile, for China, this comprehensive strategic partnership was anticipated to facilitate the development

61 Jancarik, Jonas. “Geopolitical Outlook for Europe.” EPSC - European Commission. European Commission, June 13, 2018. [https://ec.europa.eu/epsc/publications/other-publications/geopolitical-outlook-europe\\_en](https://ec.europa.eu/epsc/publications/other-publications/geopolitical-outlook-europe_en).

62 Christiansen, Thomas, Emil Kirchner, and Uwe Wissenbach. *The European Union and China*. London: Red Globe Press, 2019.

63 “EU-China 2020 Strategic Agenda for Cooperation.” European Union External Action. European Union External Action, 2013.

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of a multipolar world order along with facilitating China's economic development, modernization and augmentation of its national power through supporting the stability and transfer of technology from European firms. On the other hand, the strategic partnership has not been fully materialized even though it has enabled deeper and greater contacts between the two in the policy domains of security, diplomacy and economics.<sup>64</sup>

Moreover, the "EU-China – A Strategic Outlook", which the former High Representative for Common Foreign and Security Policy (CFSP), Federica Mogherini presented in a Joint Communication to the European Parliament, the European Council and the Council in March 2019, highlights that an enduring relationship links the EU and China. The EU and China are two of the largest traders and economies in the world. While referring to the commitment by both partners as expressed in "EU-China 2020 Strategic Agenda for Cooperation", it highlights that for China, the EU is its biggest trading partner and for the EU, China is second to the US, its biggest trading partner. Furthermore, it referred to the HR CFSP's 2016 report, "Elements for a New EU Strategy on China," which was termed as a "cornerstone of the EU engagement" that provided the foundation for a policy shift of the EU towards a more assertive, multi-faceted and realistic approach. It also mentioned that the EU's adherence to "One-China Policy" while at the same time, confirming to develop relations with Taiwan. However, such a commitment will make sure that strategic partnership between the two is based on balanced, fair and mutually beneficial ways. Moreover, it also highlighted that multilateralism remains the basis for the EU's commitment to engaging with China in order to uphold the rule-based world order. However, it referred to China as a "systematic rival". The Outlook aptly outlines that promoting different models of governance, China is a systematic rival. Moreover, in order to enable a principled defense of EU interests and values, a pragmatic and flexible whole-of-EU approach is required, the Outlook adds.<sup>65</sup> Thus, despite

64 Christiansen, Thomas, and Richard Maher. "The Rise of China—Challenges and Opportunities for the European Union." *Asia Europe Journal* 15, no. 2 (April 2017): 121–31. <https://doi.org/10.1007/s10308-017-0469-2>.

65 "EU-China: A Strategic Outlook." European Commission. European Commission, March 13, 2019. [https://ec.europa.eu/commission/news/eu-china-strategic-outlook-2019-mar-12\\_en](https://ec.europa.eu/commission/news/eu-china-strategic-outlook-2019-mar-12_en).

the increasing strategic partnership between the two, China can pose challenges to the EU in its geo-economics as a systematic rival.

### ***The China Challenge to the EU's Geo-economics***

By using its economic power, China pursues to become a global leader in world politics. It is of utmost importance for China to develop economic and commercial relations with the EU while at the same time pursuing to exclude opposing viewpoints from the EU in its bilateral relations. The EU's significance for China extends beyond that of an economic and commercial partner. China wants to use the EU's position as an instrument to improve its relations with the West. Moreover, it also wants to send a message to the US. Since the US is an important geopolitical actor of Asia, China wants to convey its message to the US that it is a significant actor in Europe insinuating that without China there can be no Europe.<sup>66</sup> Moreover, European sovereignty and security are prone to challenges from China. China is not only active in geographies closer to the EU but it is also leaving its footprints in the space and cyber security domain. China poses a challenge to Europe in its strategic autonomy with political de-alignment and disinformation. Moreover, China's actions have the potential to undermine European development of a sustainable industrial base and economic security along with European digital sovereignty.<sup>67</sup> Therefore, it is of utmost importance to discuss the China challenge to the EU's geo-economics which mainly focuses on three geo-economic instruments i.e., trade, investment and cybersecurity of the EU's geo-economics.

66 Akdemir, Erhan. "Chinese Strategy Towards Europe: The Belt and Road Initiative and 17 + 1 Strategy – What Does It Mean for the EU and Central and Eastern Europe?" *Studia Europejskie – Studies in European Affairs* 2 (2020): 127–45. <https://doi.org/10.33067/SE.2.2020/7>.

67 Huotari, Mikko, and Jan Weidenfeld. "Introduction: Pursuing a Principles-First Approach in EU China Policy." Essay. In *Towards a Principles First Approach in Europe's China Policy* 9, 9:8–18. Berlin: MERICS, 2020.



### ***The EU-China trade relations and the challenge to the EU's Geo-economics***

Trade and economic relations have long been central to the EU-China relations. Trade liberalization has also been at the center of the Union's integration process. The competence to manage trade with other states is an exclusive and powerful competence of the Union. The trade between the two has grown massively since the opening of China to the global economy and has been further accelerated after China's joining of World Trade Organization (WTO) in 2001 – a move that the EU strongly supported. With the beginning of the current century, trading relations between the two have become critical for the global economy along with being a dominant feature in their bilateral relations. Despite such strong economic relations, the bilateral trade between the two has not been without challenges. There is a consistent growing imbalance in bilateral trade with the EU importing more from China than exporting. Besides this, China exports low quality goods to the EU and imports high quality goods from the Union which has created a complex trade arrangement between the two. Moreover, both compete in their own markets as well as in third countries when they produce similar goods. However, Europe is suspicious of China's below-cost pricing of exports, which gives rise to occurrence of trade disputes more often.<sup>68</sup> Similarly, China's increase in production of different variety of goods poses competitive challenges to the EU not only at home but also in global markets. Such challenge can be observed in Russian as well as Latin American markets where China has overtaken the EU in those markets. The EU should take China's challenge at the global level seriously in order to maintain its economic strength.<sup>69</sup> Moreover, the trade between the two is imbalanced. In areas where China lacks competitiveness, such as manufacturing of advanced manufacturing tools, high performance motor vehicle, advanced passenger aircraft etc., it has restricted

68 Christiansen, Thomas, Emil Kirchner, and Uwe Wissenbach. *The European Union and China*. London: Red Globe Press, 2019.

69 Herrero, Alicia Garcia, Guntram Wolf, Jianwei Xu, and Nicolas Poitiers. "China Trade and Investment Relations in Challenging Times." European Parliament, 2020. [https://www.europarl.europa.eu/thinktank/en/document.html?reference=EXPO\\_STU%282020%29603492](https://www.europarl.europa.eu/thinktank/en/document.html?reference=EXPO_STU%282020%29603492).

the access to the domestic market in order to protect domestic producers. In addition to this, the labor has also been disorganized along with the lower cost of compliance with environmental and social regulations in China than in the EU. However, it is not limited to this; China and the EU have different approaches to the use of subsidies and competition which may result in unfair trade.<sup>70</sup> Therefore, such a different approach to trade poses challenge to the EU's trade which is an important geo-economic instrument not only in the EU's domestic or the Chinese market but also in the third world markets which gives China a competitive trade advantage.

### ***The EU Investment policy and the China Challenge***

According to the Commission's Impact Assessment Report on the EU-China Investment Relations<sup>71</sup>, EU investment in China was nonexistent before 1993 but since early 1990s European investments in China started increasing at a considerable pace. However, despite the EU emerging as the single biggest investor in China, its overall Foreign Direct Investment (FDI) to China reduced due to barriers on FDI in China. The impact assessment report further highlighted that the EU's outward flows to China were negatively affected due to lack of a secure and predictable environment both for existing and prospective investors. As a result, there was a growing imbalance and an untapped potential given the fact that the relative barriers to Chinese FDI in the EU were absent. In order to address this imbalance, the EU sought to produce new investments opportunities for European undertakings with the launch of Comprehensive Agreement on Investment (CAI) with China in 2014.<sup>72</sup> With CAI, the EU seeks to open China's market for its companies and eliminate discriminatory practices and laws that create obstacles for them to compete on an equal basis in the Chinese market not only with Chinese companies but also with companies from third countries. The CAI is

70 Farnell, John, and Paul Irwin Crookes. *The Politics of EU-China Economic Relations An Uneasy Partnership*. London: Palgrave Macmillan UK :Imprint: Palgrave Macmillan, 2016.

71 "Impact Assessment Report on The EU-Chine Investment Relations." European Commission, May 23, 2013.

72 "EU-China Comprehensive Agreement on Investment." European Commission, 2014. <https://trade.ec.europa.eu/doclib/press/index.cfm?id=2115>.

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still in negotiation process. Regarding the EU's investment challenge from China, two challenges are pertinent to note: firstly, the restrictions on Chinese sectors where EU firms can invest as certain sectors are excluded for foreign direct investment and secondly, the challenge with the protection of Intellectual Property Rights (IPRs) which risks the protection of technical know-how of manufacturing of certain goods. China is considered a major source of counterfeit goods and in 2016, one-third of counterfeit products in the Union were from China. Besides this, in this previous decade Chinese investments into the EU were not only systematic and targeted but also strategic, in terms of which the individual firms are pursued by the Chinese government to follow a long-term strategy.<sup>73</sup> Another challenge to EU's investment policy is that there is a relatively small presence of the European Union undertakings in the services sector in China. This challenge is enhanced with a rowing negative mood of EU undertakings present in the markets of China where they are prone to a lack of equal treatment as compared to state-own undertakings in most sectors.<sup>74</sup> Therefore, such investment policies followed by China not only challenge the EU in the Chinese markets but also in the third country markets where Chinese firms are operating on their own terms.

### ***EU Cybersecurity and the China Challenge***

As mentioned before, instead of getting involved in cyberattacks to wreak havoc in other states' economies for geopolitical advantage, the EU has taken measures to secure its cyberspace and protect the data of the individuals and undertakings with the measures such as GDPR, Cybersecurity Act and a Digital Single Market Strategy for Europe. For China, these requirements under GDPR are a "higher requirements" and it hopes that they will not affect the business dealings on both sides. Despite the measures taken by the EU to secure its cyberspace, China can still pose a challenge to the EU in its cyberspace. Beijing is increasingly moving from a reformer of the existing system

73 Christiansen, Thomas, Emil Kirchner, and Uwe Wissenbach. *The European Union and China*. London: Red Globe Press, 2019.

74 Herrero, Alicia Garcia, Guntram Wolf, Jianwei Xu, and Nicolas Poitiers. "China Trade and Investment Relations in Challenging Times." European Parliament, 2020.

and an outsider leading the initiatives to set its own rules and norms and control the agenda. For that, China uses what the Chinese Communist Party (CCP) refers to as the new strategic frontiers which also includes cyberspace. China pushes itself into this direction by broaching the concepts such as the building of a cyberspace community of destiny and internet sovereignty.<sup>75</sup> Moreover, China has become more dynamic in its efforts to form the global internet in order to pursue tighter controls over technological independence and cybersecurity, international influence and information. Besides this, with a domestic and international component to its cyber sovereignty, China's efforts will result in less free and less open internet which can threaten privacy, the spread of disinformation and concentration of economic and military power in the big technology firms.<sup>76</sup> Owing to Huawei/5G controversy, the EU can be caught up between the US-Chinese tussle. While the US warns the EU that getting involved with Huawei would risk losing sensitive data to China, which can result in vulnerability of the European Communication system in an international crisis, China, on the other hand, warns the EU that in case of shutting down Huawei, the EU will face negative consequences for its trade interests.<sup>77</sup> Despite the EU measures to protect its cyberspace, it remains vulnerable to cyberattacks which does not only pose challenge to its data security but also to its geo-economics as its trade and investment policies can be affected.

Besides these three geo-economic instruments, China does not pose much challenge to the EU's other geo-economic instruments. As discussed earlier, the EU is a financial aid provider and China provides soft loans. The EU uses sanctions as a strong geo-economic instrument and China considers sanctions an abuse of power. Both EU and China are the two biggest energy consumers of the world and are in competition in the international energy market

75 Rolland, Nadège. "China's Vision for a New World Order." The National Bureau of Asian Research NBR, 2020.

76 Segal, Adam. "China's Vision for Cyber Sovereignty and the Global Governance of Cyberspace." Essay. In *An Emerging China-Centric Order*, 85–100. Washington: The National Bureau of Asian Research, 2020.

77 Lehne, Stefan. "How the EU Can Survive in a Geopolitical Age." Carnegie Europe - Carnegie Endowment For International Peace, 2020.

at times. The EU's geopolitical arrangement for energy security will not affect China's energy supply security. It will, however, definitely be in China's favor.<sup>78</sup> China may pose an indirect challenge to the EU's energy security which is beyond the limits of discussion of this discussion paper. As mentioned earlier, the Euro is the second international currency with 22% of share and Chinese Renminbi accounts for only 1%, thus, there is no imminent China challenge to the Euro. The EU, nevertheless, should strengthen the Euro and advance its international role which can potentially lose some of its share to Renminbi in the future.

### ***The EU's China Challenge at Home***

China is not restricted at the gate; it is already inside Europe. Within Europe, China commands a flexible and comprehensive influencing toolset. This influencing toolset includes arenas ranging from public opinion to media, from academia to civil society and from economic to political elites. China makes the most of Europe's openness in gaining political influence within the EU. On the contrary, China does not provide similar openness to the EU within China as access of external actors, capital and ideas is stymied within China.<sup>79</sup> Moreover, 17+1 (erstwhile 16+1 Initiative) Initiative is a major geo-economic tool of China within the EU. When blamed for pursuing a policy of divide and rule with this initiative, China gets furious.<sup>80</sup> China's use of disinformation can also be a threat to the EU's security. The EU previously was focused on disinformation only coming from Russia. Disinformation has taken a new global dimension which includes state-sponsored disinformation campaigns including from China. These disinformation campaigns should be treated as a hybrid threat to European, as well as global security. The EU's approach in its relations must not be reduced down to one perspective and

78 Gu, Xuewu. "EU's Energy Geopolitics and China's Energy Security." Essay. In *EU, China: Global Players in a Complex World*, 133–45. Hildesheim: Olms, 2012.

79 Benner, Thorsten, Jan Gaspers, Mareike Ohlberg, Lucrezia Poggetti, and Kristin Shi-Kupfer. "Authoritarian Advance: Responding to China's Growing Political Influence in Europe." *Authoritarian Advance: Responding to China's Growing Political Influence in Europe*. Global Public Policy Institute, 2018.

80 Kühnhardt, Ludger. *The New Silk Road: The European Union, China and Lessons Learned*. Bonn: ZEI, 2018.

the focus of bilateral relations should be on transparency, reciprocity and trust.<sup>81</sup>

### ***China's 17+1 Initiative***

The 17+1 initiative, officially known as the China-Central and Eastern European Countries (CEEC) Summit, is an initiative of China. China initiated it in 2012 to expand cooperation between 12 EU members: Bulgaria, Croatia, the Czech Republic, Estonia, Greece (joined in 2019), Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia and 5 Balkan states: Albania, Bosnia and Herzegovina, Macedonia, Montenegro and Serbia. The 17+1 Initiative predates China's BRI, however, it is widely seen as a BRI extension. China has identified three priority areas which include green technologies, infrastructure and advanced technologies for cooperation under this initiative. Even though the initiative gives the impression of multilateralism, it is rather only a forum to strike bilateral deals for China.<sup>82</sup> Moreover, China tries to give the outward impression of consensus-building and inclusivity about its deceptive brand of multilateralism. During the China-CEEC summit in 2018, China's Premier Li Keqiang told the attendees that they need to uphold multilateralism with the official summit statement affirming support for the two pillars of multilateralism; the WTO and the UN. However, under the surface, the format of 17+1 fundamentally differs to that of multilateral institutions. China's multilateralism relies on flaccid bilateral deals and striking egos and lacks depth of multilateralism where members subscribe to common rules. It nevertheless can be called "Flatteralism" as the deals accrue benefits for China which favors governments with less strict investment

81 Borrell, Josep. "Trust and Reciprocity: the Necessary Ingredients for EU-China Cooperation." European Union External Action, May 15, 2020. Also see; "Disinformation around the Coronavirus Pandemic: Opening Statement by the HR/VP Josep Borrell at the European Parliament." European Union External Action, 2020.

82 Hillman, Jonathan E, and Maesea McCalpin. "Will China's '16+1' Format Divide Europe?" Center for Strategic and International Studies, April 11, 2019. <https://www.csis.org/analysis/will-chinas-161-format-divide-europe>.

rules.<sup>83</sup> Chinese Premier Li said that the trade volume between China and the 16 CEECs grew from approximately 40 billion to 70 billion USD increasing at an average of 6.5% annually during the period between 2012 and 2018. During the same period, trade share of them with China increased from 9.3% to 11% as compared to their trade with Europe. Chinese imports from these countries increased by 25%. With the initiative, there is an uneven investment distribution as 95% of the investments were contributed to 6 CEEC countries Bulgaria, Czech Republic, Hungary, Poland, Slovakia and Romania. For China, Greece's joining was of a great significance as it will extend the 21<sup>st</sup> Century Maritime Silk Road. It will also enable China to demonstrate the compatibility of the initiative with Western systems, leading to a more integrated Eurasian economy.<sup>84</sup> Therefore, the 17+1 Initiative holds an utmost importance for China to increase its geo-economic influence within the EU.

### ***Challenge to the EU***

There is serious concern in the EU about China's 17+1 Initiative. The EU recognizes China's direct investment in Southeast Europe. However, there are permanent and growing complaints regarding the content of the investments. For instance, issues related to political influence following the investment from China's Cosco Company in the port of Piraeus, transparency in the procurement of the Belgrade-Budapest railway project, and the environmental standards in the building of a thermal power plant in Bosnia-Herzegovina. These suspicions were confirmed when Greece rejected a UN Human Rights Commission resolution against China and sidelined the usual EU consensus on the resolution. Despite this, when blamed for pursuing a policy

83 Hillman, Jonathan. "A Chinese World Order." *The Washington Post*, July 23, 2018. <https://www.washingtonpost.com/news/theworldpost/wp/2018/07/23/china-world-order/>.

84 Akdemir, Erhan. "Chinese Strategy Towards Europe: The Belt and Road Initiative and 17 + 1 Strategy – What Does It Mean for the EU and Central and Eastern Europe?" *Studia Europejskie – Studies in European Affairs* 2 (2020): 127–45. <https://doi.org/10.33067/SE.2.2020/7>.

of divide and rule of the EU with this initiative, China gets furious.<sup>85</sup> In addition to this, China's position towards the role of the EU in the framework of 17+1 has been at times contradictory and complex. The mention of the EU was conspicuously absent from the announcement of China's former Premier Wen Jiabao's 12 measures related to the framework of 17+1 in Warsaw in 2012. Such inroads from China into the region caused apprehension in Brussels and the capitals of the member states (particularly Berlin and Paris) regarding China's attempts to divide Europe and circumvent the EU norms and rules in member states.<sup>86</sup> Furthermore, in order to build and exercise influence, China commands a flexible and comprehensive toolset in Europe. This toolset ranges from the covert and overt strategies which are strategically deployed in various arenas ranging from political and economic elites to media, academia and civil society. China utilizes investments in public utilities and infrastructure to create its political leverage. The 17+1 initiative serves to aggravate the East-West divide and weaken the solidarity of the EU.<sup>87</sup> Hence, there is a major China challenge to the EU at home from the 17+1 Initiative. Besides this Initiative, it is also pertinent to discuss China's BRI and its implications for the EU.

### ***The Belt and Road Initiative (BRI) and the EU***

Although the 17+1 Initiative slightly predates the BRI-the most notable Chinese mega project which was launched in 2013, it became an integral part of the wider BRI project. Through the improvement of infrastructure development, the BRI is designed to increase China's connectivity, which would make it one of the omnipresent global powers. The BRI has penetrated into markets with its numerous construction projects and financial agreements

85 Kühnhardt, Ludger. *The New Silk Road: The European Union, China and Lessons Learned*. Bonn: ZEI, 2018.

86 Vladisavljev, Stefan, and Filip Šebok. "Political Relations: Beyond Proclamations." Essay. In *Policy Paper: Empty Shell No More: China's Growing Footprint in Central and Eastern Europe*, edited by Konstantinas Andrijauskas, 14–34. Prague: Association for IR. (AMO), 2020.

87 Benner, Thorsten, and Wright, Thomas. "Testimony to U.S. China Economic and Security Review Commission." *China's relations with U.S. allies and partners in Europe and the Asia Pacific*. April 5, 2018.



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around the world, including Europe where CEE states provide a gateway to the rest of Europe. With the BRI and 17+1 Initiative, China ensures that the CEECs are prepared to upgrade their economic and as a resultant political relations with it.<sup>88</sup> The BRI highlighted that as a unilateral Chinese initiative, BRI sees China in the service of a wide set of partnerships based on networks. Even it recognizes different world power centers yet it claims to be a practical alternative to alliance formations. While trying to reconfigure power relations in the world, it simultaneously claims to treat partners equally. This approach of China is definitely a challenge to the US global hegemony and also challenges the EU culturally, economically and conceptually in terms of regional self-images and policy preferences.<sup>89</sup> Moreover, China's BRI has caused controversy within the Union. On the one hand, concerning the BRI, the EU member states praise the vision of the Chinese government while on the other hand; they also demand from China that it should open its markets in order to increase bilateral trade. There are some EU member states that prefer to work with China in the framework of the EU such as France, Germany and Spain while there are members who are included as a part of the BRI such as the Czech Republic, Greece, Italy and Poland. The member states that prefer to work with China in the framework of the EU, criticize the member states that are part of the BRI. They are concerned that the policies which China pursues are aimed at creating economic dependency for the member states part of the BRI through various means. Such Chinese policy clearly manifests that China assertively pursues its geo-economics in the EU and thus, poses a challenge to the EU's geo-economics not only globally but also at home which might give rise to a division and disintegration of the Union.<sup>90</sup> Besides this, the resolution the European Parliament adopted

88 Vladislavljev, Stefan, and Filip Šebok. "Political Relations: Beyond Proclamations" Essay. In *Policy Paper: Empty Shell No More: China's Growing Footprint in Central and Eastern Europe*, edited by Konstantinas Andrijauskas, 14–34. Prague: Association for IR. (AMO), 2020.

89 Kühnhardt, Ludger. *The New Silk Road: The European Union, China and Lessons Learned*. Bonn: ZEI, 2018.

90 Akdemir, Erhan. "Chinese Strategy Towards Europe: The Belt and Road Initiative and 17 + 1 Strategy – What Does It Mean for the EU and Central and Eastern Europe?" *Studia Europejskie – Studies in European Affairs* 2 (2020): 127–45. <https://doi.org/10.33067/SE.2.2020/7>.

on the state of EU-China Relations in 2018 noted that China's investments under the BRI are part of its overall strategy to take energy and banking sectors along with other supply chains under the control of Chinese state-funded or state-owned companies. Moreover, the resolution also highlighted that from 2008 to 2018, China acquired assets of worth 318 billion USD in Europe.

### ***The EU's Dealing with the China Challenge at Home***

EU officials worry that the mechanism of 17+1 Initiative could further weaken EU unity on its policies towards China. They also highlight the 2016, "Elements for a new EU strategy on China" and argue that it asserted that the Union's bilateral relations with China, including the 17+1 Initiative should be coordinated by the EU in order to ensure that relevant aspects adhere to the EU rules, policies and laws and the resulting outcome of the relationship is lucrative for the Union as a whole.<sup>91</sup> This same stance was reiterated in the Parliament's 2018 resolution on EU-China relations in which the members expressed their apprehensions due to China's increasing economic and political weight that has put the shared EU-Commitments under Comprehensive Strategic Partnership to the test. While referring to Europe's much greater collective bargaining power with China, the members urged that the Union should defend its democracies in order to face China's efforts to influence its civil society and politicians. Moreover, the Parliamentarians also supported the call on China to obey principles of social and environmental standards along with transparency in public procurement. It was suggested that data on infrastructure investments from China in the EU member states and the states in EU accession negotiations should be shared with the institutions of the Union and other member states. They also stressed the importance of Chinese compliance with human rights in the BRI projects.<sup>92</sup> Furthermore, the EU attends 17+1 summits as an observer and in 2016 the

91 Hillman, Jonathan E, and Maesea McCalpin. "Will China's '16+1' Format Divide Europe?" Center for Strategic and International Studies, April 11, 2019.

92 Parliament, European. "Text Adopted by Parliament, Single Reading: A Resolution on the State of EU-China Relations." European Parliament, 2018. <https://oeil.secure.europarl.europa.eu/oeil/popups/summary.do?id=1552113&t=d&l=en>.

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Union agreed on a strategy (Elements for a new EU strategy on China) for China which sketches the principles such as a level playing field, transparent public tenders and reciprocity for the EU's engagement with China. The EU works towards cooperation with China and sticks to the principles of its 2016 strategy on digital and physical infrastructure through the platform of the EU-China connectivity. Moreover, the EU invested more than 8.9 billion euros in the Western Balkans from 2007-2017 through the Instrument for pre-Accession Assistance.<sup>93</sup>

In order to cater to the growing presence of China in the Western Balkans, the EU launched the Berlin Process<sup>94</sup> in 2014 which under the EU's connectivity agenda for the Western Balkans created new regional dynamics and by 2018 it had provided grants for 31 infrastructure projects in the Western Balkans, which reached to 39 projects by 2019 with 3.2 billion euros investment. A multiannual action plan for the development of the regional economic area including investment, trade, digital market and mobility was adopted in 2017 at the Berlin Process Summit. Besides the China Strategy and the Berlin Process, the EU has also adopted Foreign Investment Screening Regulation. The EU Foreign Investment Screening Regulation<sup>95</sup> entered into force on April 10, 2019 and is fully applicable from October 11, 2020. This regulation will safeguard Europe's public and safety order vis-à-vis the FDI into the EU.

### ***Policy Steps for the EU to Promote its Geo-economics and Deal with the China Challenge***

Besides the aforementioned policies that the EU adopted as a response to the 17+1 initiative, the EU should also pursue a different toolset to deal with the China Challenge and promote its geo-economics. The following policy steps are recommended for the EU:

93 Grieger, Gisela. "China, the 16+1 Format and the EU." European Parliament, September 2018.

94 "Western Balkans Summit." In Berlin Process. Poznań, 2019.

95 "EU Foreign Investment Screening Regulation Enters into Force." European Commission, April 2019. European Union.  
[https://ec.europa.eu/commission/presscorner/detail/en/IP\\_19\\_2088](https://ec.europa.eu/commission/presscorner/detail/en/IP_19_2088).

1. Throughout the world, the EU needs to conduct foreign and security policies determined, as per the suggestion of the EU's Security Strategy, by unfolding globalization opportunities and changes in threat assessment. With the existence of European Economic Community (EEC), the global performance of the EU is best defined as a multilateral trade negotiator. Moreover, with the contribution of approximately more than sixty percent to the global development aid, the EU and its member states have earned a great repute in international development cooperation. The EU's policy towards the developing countries is the instrument which it uses for developing and maintaining its relations with the developing and poorest countries in Caribbean, the Pacific and Africa. Moreover, in order to project its potential for economic diplomacy in Africa and Asia, the EU should adopt forward-looking ambitions. Staying on the sidelines and remaining equivocal about its own aims and ambitions will not serve the EU.<sup>96</sup> Since trade and international aid are two of its major geo-economic instruments, the EU must make the most of its recognition as a trade negotiator to enhance its role as a global geo-economic player and also, use its great repute in international development cooperation to promote its geo-economics along with its values and interests in different regions of the world, thus countering China's influence in those regions.

2. The EU must balance, engage and retrench in order to respond to China's augmented military and economic capabilities. It must adopt this strategy towards the Asia Pacific and China over next two decades approximately.<sup>97</sup> The EU must penetrate into the region where China is increasing its dominance, just like China has already entered into the Union. In this regard, the EU also needs to implement its EU-Asia Connectivity Strategy proactively and materialize the strategy completely

96 Kühnhardt, Ludger. *European Union-The Second Founding: the Changing Rationale of European Integration*. 2. Revised edition. Baden-Baden: Nomos, 2010. Also, see: "The New Silk Road: The European Union, China and Lessons Learned." Bonn: ZEI, 2018.

97 Christiansen, Thomas, and Richard Maher. "The Rise of China – Challenges and Opportunities for the European Union." *Asia Europe Journal* 15, no. 2 (April 2017): 121–31. <https://doi.org/10.1007/s10308-017-0469-2>.

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which can help play a stronger role for the EU's geo-economics in the region.

3. The symbol of the EU as a uniting force is a great deal of soft power. Taken as a whole, the EU has a population greater than that of the US. It is a force to be reckoned with. Where unilateralism gets heavily criticized in the world, the EU's adherence to multilateralism attracts many states towards it.<sup>98</sup> The EU should materialize its soft-power as a torch-bearer of multilateralism and a normative power in order to project its values and interests and promote its geo-economics.

4. The EU in its economic, trade and foreign policy vis-à-vis China sought to make bilateral relations more reciprocal and fairer. The principle objective was to expand bilateral trade and open the Chinese markets for European investments. Despite its efforts to toughen its approach towards China, the EU still wants to deepen the bilateral relations.<sup>99</sup> The EU must convey its message to China that the Foreign Investment Screening Regulation is a necessary step to protect European markets and aims to create closer investment cooperation.

5. Chinese leaders are no longer content with only preventing European values and principles from making their grounds in China but they also seek to prevent their spread internationally. Therefore, the EU's policy on China should be based on serious recognition of China's sustained and frequent non-convergence with the best practices, principles and values that strengthen the European project. European leaders must accept that Chinese leaders have internally long concluded that Europe's economic and political system poses a challenge to China's political preferences and strategic priorities. Moreover, despite many challenges posed by China, it is also a key to meeting the EU's ambitions in many respects. In order to create sovereign, digital, green, competitive and a more geopolitical Europe that the Von Der Leyen's Commission

98 Nye, Joseph S. *Soft Power: The Means to Success in World Politics*. New York: Public Affairs, 2004.

99 Leonard, Mark. "The End of Europe's Chinese Dream." ECFR, May 27, 2020. [https://www.ecfr.eu/article/commentary\\_the\\_end\\_of\\_europes\\_chinese\\_dream](https://www.ecfr.eu/article/commentary_the_end_of_europes_chinese_dream).

(which is a Geo-economic Commission by its set up as highlighted before) has pledged to accomplish, the EU needs to make its bilateral relations with China an accomplishment. This is because of four reasons: first, dealing with China's growing influence in regions of interest to the EU, second, establishing Europe as a third global digital actor in competition with the US and China, third, incorporating China in a global green deal and fourth, developing a strong position against the strategic competition between the US and China.<sup>100</sup> Therefore, the EU must adopt a preventing strategy vis-à-vis China in order to counter China's efforts to prevent European principles and values internationally.

## **Conclusion**

Geo-economics is a hybrid strategy in which politics and economics go hand in hand. Geo-economics can simply be defined as a strategy which uses economic means to meet political ends. Without the element of politics, there is no geo-economics. Its relevance to the European Union is pertinent in the sense that the EU is not absent from global geo-economics. The EU is a normative power and a torchbearer of multilateralism which follows rule-based strategy not only in its geopolitics but also in its geo-economics. As the third largest market and the biggest economy, the EU holds immense importance in world politics and plays a significant role as a geo-economic player. It follows the rule-based strategy and promotes its values of democracy and human rights in its use of geo-economic instruments. In its trade policy, the EU follows the international principles and values of human and labor rights. The EU is the major source of global foreign direct investment stocks. Despite being a major source, the EU has failed to gain political leverage out of its investment policy. Thus, the element of politics is missing from this geo-economic instrument which can just be termed as a mere business or economic policy. Nevertheless, the EU's investment policy manifests its soft

100 Huotari, Mikko, and Jan Weidenfeld. "Introduction: Pursuing a Principles-First Approach in EU China Policy." Essay. In *Towards a Principles First Approach in Europe's China Policy* 9, 9:8–18. Berlin: MERICS, 2020.

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power as a normative power. Moreover, the EU is also a major global financial aid provider which gives the EU leverage to promote its rule-based values. Financial sanctions are a major foreign policy and the most practiced geo-economic instrument of the EU. Additionally, the EU is aware of the significance of cyberspace. Instead of getting involved in cyberattacks to wreak havoc in other states' economies for geopolitical advantage, the EU has taken measures such as GDPR and Cybersecurity Act to secure its cyberspace and protect the data which also give a geopolitical leverage to the EU as it secures its digital markets. Furthermore, the role of the Euro is significant for the EU's geo-economics. However, the EU needs to enhance its geo-economic strategy vis-à-vis financial and monetary policy to strengthen the role of the Euro in the world economy. Lastly, the EU does not have much leverage to set geo-economic strategy vis-à-vis energy and commodities. Nevertheless, if the EU manages to reduce its energy dependency on Russia in the near future and rely more on renewable energy, it can definitely be in a position to set geopolitical targets and achieve its geopolitical objectives. Despite such geo-economic positions, the EU is prone to the China challenge. China poses challenges to the EU's three geo-economic instruments namely; trade, investment and cybersecurity. Besides this, the EU is also prone to the China challenge at home. China, with its 17 + 1 Initiative which is considered an extension of BRI, is already present inside the EU. China's 17+1 initiative can be termed as a policy to divide and disintegrate which is strongly denied by China. In order to neutralize the China challenge, the EU must follow the aforementioned policy steps which will not only help the EU deal with the China challenge but will also strengthen its global geo-economic footprints.





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