
Soft Power & Global Ambition: The Case of China's Growing Reach in Europe

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ABSTRACT

This paper argues that Chinese state-owned enterprises and financial instruments facilitate China's exercise of soft power and the execution of its grand strategy. Chinese investments provide an increasingly dense network of commercial links through which China extends the scope and reach of its influence and projection of power in a manner that has implications for the international system. In the process, countries in different regions of the world increasingly feel economically ' beholden ' to China, seeding the development of entirely new classes of client-state relationships. China's growing reach into Europe is no exception. The financial crisis of 2008 exposed vulnerabilities in Europe's southern and eastern flanks and provided optimal conditions for the accelerated pace of China's investments in strategic infrastructure and sensi-

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tive technologies. Today, these vulnerabilities undermine European cohesion, exacerbate historical fault lines, and contribute to conditions of instability which in turn dramatically influence EU policy, particularly with respect to its “Near Neighborhood” and Southern European members. Today, China is invested in strategically positioned ports along Europe’s Mediterranean rim and Atlantic shore, and established its first overseas military base in Djibouti in 2017. These and other investments, extending from Europe through Central Asia and to the Pacific, are connected by a vast network of marine and land links that form part of China’s One Belt One Road (OBOR) initiative. Current geopolitical conditions are optimal for China to advance in power, prestige, and legitimacy. China’s rise comes at a particularly difficult period of fracture among the transatlantic allies and general crisis of confidence in the West. China’s rise and the expression of its soft power through commercial and investment conduits in Europe have stretched the country’s influence from the Pacific, through the heart of the Western alliance, to face the United States on the Atlantic Ocean. China is at the gates and seeks accommodation. This brings significant challenges to the Western liberal order, and with it, the international system itself.

CONTEXT FOR THE CHINESE MODEL

The Chinese model of “influence via investment” has been the source of much examination, especially with respect to the implications for growing Chinese influence and leverage across the developing world. Chinese investments in Latin America, Central America, Asia, and Africa have long been studied for clues regarding Chinese intentions and geopolitical ramifications beyond those of a purely economic or commercial nature.

The fact that this spending spree involves mainly Chinese-state owned or state-backed enterprises has raised red flags in the European Union about the reach and scope of China’s influence in Europe and the nature of its ambitions.

Less discussed, but of great strategic importance, is China’s growing reach and influence into the heart of Europe, which has sharply escalated over the last ten years. The 2008 collapse of international financial markets and resulting world-wide recession was fortuitous in that it brought opportunities for major acquisitions and investments in seaports, railways, airports, and sensitive technologies in several parts of Europe—particularly in the

cash-strapped countries of Southern and Eastern Europe. The fact that this spending spree involves mainly Chinese-state owned or state-backed enterprises (SOEs) has raised red flags in the European Union about the reach and scope of China's influence in Europe and the nature of its ambitions. The ability of Chinese investments to threaten EU cohesion has also prompted a refinement of EU policies in a number of vital areas.

The increasing presence of China in Europe has implications regarding the nature of the EU-China relationship and implications for the status quo. These developments have particular the current integrity of the Western liberal world order that has been in place for the last seventy plus years—even more so when viewed in the current context of an apparent retreat of the United States from its traditional role as guardian of the liberal world order that it created, shaped, and led.

THE RISE OF CHINA

In many ways, the China of the Tiananmen Square protests of 1989 has undergone significant transformation and change. It has made tremendous advancements in material wealth, and in turn, its international prestige has risen, and the material welfare of its people has improved. Some things, however, have remained constant. The Chinese Communist Party (CCP) control of state institutions, and the Chinese model of centrally-planned, state-led capitalism within authoritarian political structures, have both proven to be remarkably resilient and adaptable.¹ If anything, in recent times, the dominant power of the CCP has become even more entrenched.

Scholars of international relations view China's rise as unprecedented, given the speed of its achievements. While China's rise does not immediately threaten the international system—based on measurements of its economic and military capability and level of technological advancement relative to that of the United States²—pundits are unable to deliver precision with respect to timing, beyond notions of the status quo remaining for “several decades.”³ However, they admit to the absence of a modern historical precedent for assessing the implications of China's rapid rise given its characteristics.⁴ They also consider the concept of polarity as “too blunt an instrument” with which to determine “how much of a shift in power is required before the system is no longer unipolar.”⁵

China is nonetheless changing the regional distribution of power across East Asia, while increasing its influence globally. Among the Great Powers, the country is viewed in a class of its own.⁶ It has translated

economic capability not only into soft power but also into military capability to defend its territorial integrity, with the potential to limit the range of military options available to the United States within that zone.⁷

China's rise today is also unique, not only in terms of its speed, but also its lack of association with threats of war. However, the notion of China's "Peaceful Rise" associated with former leaders has been increasingly replaced by President Xi Jinping's rhetoric with respect to China's "resurgence," and resumption of its "rightful place" in the world—a significant break from the past.⁸ These principles have been translated into a multipronged program centered on economic development, globalization, technology, and international institutions—a strategy backed by significant financial resources and soft power tools to extend China's influence, increase its prestige, and shape perceptions of its power.⁹

While China's rise is due to its own prowess and factors such as labor—in which it holds a competitive advantage—it is also true that recent changes in the dynamics of international politics, such as the power vacuum created by the Trump administration's retreat from traditional U.S. leadership roles, have provided opportunities upon which China has adroitly seized. This was demonstrated in both Xi's speech in Davos in January 2017 and in the aftermath of the U.S. decision to pull out of the Paris Accords.¹⁰

In addition, Xi's presidency and his stature as a leader have played an important role in shaping the rise of China. The Communist Party has bestowed on him a level of personal authority and honor reserved for the most highly regarded Chinese leaders. On March 11, 2018, in its first constitutional amendment in fourteen years, the Communist party reversed previous term limits on the office of the President, and—in a major departure from past practice dating to 1989—a successor to the President was not appointed at the National People's Congress of March 18, 2018.

CHINA & THE USE OF SOFT POWER

The rise of China and its global influence is hard to ignore. China has successfully translated its economic resources into increasing standards of living for the Chinese people, and it has done so in a shorter period of time than any other country in history. It is also converting economic wealth into soft power in a highly effective display of power projection and influence around the world. Indeed, China today is deemed to have the status of the lone emerging potential superpower, with implications for the international system.¹²

China is making strides militarily within its own sphere of influence across the East and South China Sea, and, in the process, reducing maneuvering space for the United States in the Pacific through its militarization of contested islands and shoals. The view remains that China will not displace the United States as a military superpower any time soon, but its rise and projection of global influence and power are nonetheless indisputable.¹³

Scholars and political pundits studying China's advancement within the international structure and its engagement in world politics have linked China's increased visibility and influence with its deployment of soft power as a strategic tool of foreign policy.¹⁵ Power has traditionally been portrayed as being generally grouped into "the hard power of coercion or the soft power of persuasion," each having different forms of utility and limitations with neither being easily substituted for the other.¹⁶ Joseph Nye, who coined the term in the late 1980s,¹⁷ describes soft power as "the ability to get what you want through attraction rather than coercion or payments."¹⁸ It is perhaps in the reach and scope of its increasingly dense network of global investments that we see the full expression of China's soft power in service of its global ambitions.

While power as a concept is at once complex and hard to define or measure, power considerations are important in the shaping of statecraft. The exercise of power through war, while of vital importance historically, is no longer the sole means of accommodating change in the international system. We saw this in the dismantling of the Soviet Union's status in the bi-polar configuration of the early 1990s.¹⁹ There are also a range of other mechanisms by which states seek to shape power structures and secure their interests. Where China has felt disaffected by the global institutions, such as the post-World War II Bretton Woods institutional architecture, it has created its own—establishing and financing the Asian Infrastructure Investment Bank (AIIB) in December 2015, for example.²⁰

Conditions today seem to favor China's ability to convert economic capability into far-reaching soft power. The global financial crisis of 2008 provided such an opportunity. Western sources of capital had shrunk, and major economies were in recession, but China retained over USD 4 trillion in foreign exchange reserves and accelerated the pace of its investments

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worldwide. The Trump administration's retreat from important areas of traditional leadership in global governance and multilateral frameworks has provided another opportunity through which China is able to project soft power and gain prestige, status, and legitimacy.²² The Trump administration's treatment of allies is also providing opportunities for traditional American allies, such as those in Europe, to become odd bedfellows with China, with whom they seek common ground in areas ranging from climate change, to global trade, to a variety of commercial and other geostrategic interests.²³

THE CHINA-EU FOREIGN POLICY ENVIRONMENT

China's EU Strategy

China and the EU established diplomatic relations in 1975. In a policy paper released in October 2003, China identified its interests in the EU as largely reflected in the China-EU Comprehensive Strategic Partnership Agreement negotiated between the two parties.²⁴ In April 2014, China, in updating its EU policy, identified the EU as a "strategic partner" and cited

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joint efforts to pursue "peaceful development in a *multipolar* world [emphasis added]." The relationship is presented as an important element in China's bid to "build long term steady and healthy relations with major powers" as a priority of its foreign policy.²⁵

The lifting of the EU's arms embargo and agreement on China's market economy status are thorny elements on the agenda that remain unresolved.²⁶ Even more striking is the manner in which relations between the two sides are framed given the compelling

differences that exist. The EU is a democracy while China's model is that of state-led capitalism with a unique approach to the organization of societal, political, and economic life. In spite of this, the EU has been China's most important trading partner for the last decade, with trade volumes exceeding USD 550 billion annually and total trade in excess of USD 610 billion in 2017.²⁷ Trade in goods between the two sides is estimated at more than USD 1.5 billion per day.²⁸

Chinese investment in ports, energy grids, and vital infrastructure now skirts along the Balkans, the Mediterranean rim, the Atlantic, and Northern Europe. One such grid is the planned 1500-km electricity corridor from Israel to Greece, via Cyprus and Crete.²⁹ Through these conduits, China's influence stretches from the Pacific, across Central Asia, across Europe, and into the Atlantic. China now faces the United States on the fronts of two great oceans, the Pacific and the Atlantic—the former with an increasing military capability and the latter through commercial and investment links through the heart of the Western Alliance.

China's military presence has also increased in Europe. Since 2011, China's naval presence has been growing in the Eastern Mediterranean. Chinese warships are increasingly visible at ports in the region, including Greece's strategically located Piraeus port, in which China now owns a commanding stake, raising questions regarding the potential for its dual use as both a commercial and military asset. These fears are not without foundation. In June 2015, the Chinese government stipulated that all civilian shipbuilders must ensure that all new vessels are suitable for military use in emergencies.³⁰ With this new strategy, China has the potential to transform its considerable civilian fleet into military resources with which to protect important "maritime support capabilities" and communications.³¹ On August 1, 2017, China officially inaugurated its first overseas military base in Djibouti, a tiny country at the southern entrance to the Red Sea in the geostrategically important Horn of Africa—and notably the home port for military assets of NATO, the United States, Japan, Italy, France, Germany, and Spain.

The EU's China Strategy

EU policy with respect to China is guided by several instruments central to its multilateral relations.³² The relationship between the parties exists at two levels, that between China and the EU as a bloc, led by the EU Commission, and that between China and individual EU member states through a series of bilateral relations. Reconciliation of national domestic policies and objectives with those of the common EU agenda is not an easy task and generates friction and tension within the EU.

As individual, state-led bilateral relations have deepened, the EU has found it necessary to develop new guidelines for the EU-China relationship.³³ One of the key imperatives for seeking to refresh this framework is based on the EU's assessment that the "unprecedented scale and speed of China's rise...[and] its increased weight and a renewed emphasis on

‘going global’ mean that it is seeking a bigger role and exerting greater influence on an evolving system of global governance.” The EU recognizes that “China is seeking space and a voice.”³⁴ Not explicitly stated but nonetheless evident is that this new strategy is in no small measure prompted by EU concerns regarding China’s growing presence in Europe, its increasing clout, and the threat to EU cohesion.

The EU is also intent on engaging China on a number of difficult issues, including the promotion of universal values and desired Chinese reforms in areas including trade and investment, economic and social development, environmental concerns, fair competition, rule of law, human rights, global public goods, sustainable development, and international security. The EU seeks to bring China in line with G20 and UN responsibilities in these areas. Most importantly, the new strategy speaks of the need to maximize EU cohesion and effectiveness in dealing with China through new instruments, including a proposed comprehensive agreement to manage investment flows between the two sides—a response to the exponential rise in Chinese investments over the past ten years.

The EU considers China an important partner in areas of global governance, security, and defense, pointing to China’s constructive engagement in the Iran nuclear deal; conflicts in Afghanistan, Syria, and Libya; and the denuclearization of the Korean peninsula. China is also considered a key actor for cooperation on matters pertaining to Africa, given its influence on the continent and existing cooperation on security matters, including counter-piracy efforts off the Horn of Africa. China’s partnership in achieving the UN’s Agenda 2030 sustainable development goals, climate change goals, and renewable energy objectives are also viewed by the EU as significant aspects of the relationship. While the EU-China relationship does not have the layers of complexity associated with that of the Sino-American relationship, it does, however, have its own areas of tension in negotiating agreements on investment policies and standards, market access, and normative issues pertaining to the rule of law and human rights.

FOREIGN POLICY TENSIONS & OPPORTUNITIES

Some scholars have made the point that China’s “dual identities,” which combine a “developing country reality with the power ambitions of a Great Power,” is characteristic of its foreign policy objectives, and also creates “issue oriented national interests, which can easily conflict with the type of value-based relationship most preferred by the EU.”³⁶ This reality, together with a sense of mistrust with respect to China’s wider ambitions,

continues to shape the relationship between the two sides. There can be no doubt that the EU views Chinese investments as a double-edged sword. Europe welcomes the injection of investments into the bloc's productive capacity and appreciates the cooperation on global issues, but it remains wary of additional competition on the home front and concerned for the Union's integrity, cohesion, and status.

Misconceptions?

The principle of shared values is typical of the EU approach to cooperation agreements and is reflected in both the EU-China 2020 Strategy and the EU 2016 Guidelines for Engagement with China.³⁷ Some Chinese scholars consider this emphasis on shared values to be a major "cognitive error" on the part of both parties and a source of considerable tension and frustration on both sides.³⁸

Perceptions surrounding the concept of multilateralism are identified as one of the more obvious differences in interpretation that exist between China and the EU.³⁹ Multilateralism to Europeans is a principle useful in forging alliances between multiple countries in pursuit of common goals. It is central to the European sense of ideational power and a means of managing their many transnational issues. China's interpretation of the concept is as a "continuation of realpolitik by other means"—a tool utilized by the West to "entrap China and curb its rise and influence."⁴⁰

Fundamental challenges to the relationship exist in the omnipresent role of the CCP and in the EU's self-perception as a champion of political reform. Such a reformist role, while feasible in the context of inducing former Eastern European states to EU membership, is not feasible in the context of EU-China relations. The EU ignores this reality at its own peril. Dabbling in China's internal affairs and "pursuing its values-driven approach to engagement provides for less rather than more scope for constructive engagement with China on a range of important matters."⁴¹

Threat to the Trans-Atlantic Alliance?

Closer relations between China and Europe over the last decade have raised questions about an emerging axis as a check on U.S. power.⁴² While Europe, its member states, and China have a stated interest in a more balanced international system based on multilateral institutions, there is little evidence to support the EU's interest in such a shift. The EU does not share China's security concerns in the Asia Pacific region, and the rapid

increase in economic and political relations between the EU and China seem based on interest bargaining—as opposed to coalition-building in an attempt to check the United States.

There is, however, a school of thought in Europe that calls for the EU to be clear-eyed about the current state of the transatlantic relationship, to move on, and to seize opportunities for new relations that benefit its interests.⁴³ In a nod to this thinking, Donald Tusk, President of the EU Council, recently made the point of thanking Donald Trump for confirming to Europe that its only reliable ally remained at “the end of your arm.” Tusk noted, “With friends like that, who needs enemies?”⁴⁴

There is a sense that the West is in disarray and that Asia is increasingly the more coherent front. If the old order is unraveling and a new one emerging, the thinking is that Europe should position itself to shape the rules and to fashion a more modern multilateral order. The foundation for Eurasian cooperation already exists through the Asia Europe Meeting (ASEM), a platform that could foster a “new 21st Century cooperative rules based multilateral order co-created and jointly designed by Europe and leading Asian powers.”⁴⁶ While this ambition has not been realized, the importance of cooperation between the two sides was emphasized recently at the ASEM Summit in Brussels, where leaders stressed the importance of multilateralism in meeting the challenges of the day.⁴⁷

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CHINA'S GLOBAL COMMERCIAL EMPIRE

Today, China's OBOR initiative joining Europe and Asia, and spanning at least sixty countries, is hailed as the world's most ambitious development project since the Marshall Plan.⁴⁸

At the time of the Marshall Plan and establishment of the Bretton Woods institutions, the United States was the largest creditor to other countries and dominated global trade. In an astonishingly short time, the baton has shifted towards China. China is expected to spend more than USD 1 trillion over the next ten years on its OBOR initiative and has already expended more than USD 300 billion.⁴⁹ In the Western Hemisphere, in the United States's own backyard, China has quietly assumed primacy as a

trading partner for much of Latin America. While differences of opinion exist regarding the net effects of Chinese foreign direct investment in Africa, and while the matter of debt sustainability is increasingly becoming an issue, China remains the partner of choice for many of the continent's governments.⁵⁰

While in the 1980s and early 1990s China was the biggest recipient of development financing from the World Bank and Asian Development Bank, China today, on its own, finances more of the developing world's commercial and infrastructural requirements than the World Bank does.⁵¹

Over the next few decades, this vast network of Chinese-financed infrastructure will increase in density and span much of the world, providing countries with great economic potential access to global value chains. This dynamic is also creating conditions for some countries to become economically beholden to China—seeding the development of new client-state relationships.⁵² The scale of this change is

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dramatic. “Within the span of 100 years China has evolved from being a client state (quasi colony) of Britain, France, Japan, and Russia, to having its own network of client states, many of whom are outside East Asia.”⁵³

China's Investment in Europe

Europe ranks as the number one destination for Chinese investment flows.⁵⁴ China's investments in the continent run the gamut from large-scale infrastructure in parts of South and South Eastern Europe, to high-tech companies in the Western part of the continent. Since 2008, it is estimated that China has made over USD 318 billion worth of investments in Europe, reflecting an increase in Chinese-related activity across the continent more than 45 percent greater than U.S. activity over the same period.⁵⁵

Since 2008, annual Chinese investments in Europe have increased steadily, with 2016 identified as the year of the greatest investment, including the purchase of Swiss pesticides company Syngenta AG for over USD 46.3 billion.⁵⁶ Top sectors attracting investments include chemicals, traditional and renewable energy, property, mining, internet and software, utilities, automotive parts and finance. While more than half of Chinese

investments in Europe are channeled through its five largest economies, the largest infrastructural investments, including the purchase of Greece's Piraeus port, are across Europe's southern periphery and eastern flank, adding important links to the maritime and land components of the OBOR initiative.

Of significance is the fact that of the 670 Chinese or Hong Kong-based corporations that have invested in Europe since 2008, one hundred are SOEs, and were involved in more than 63 percent of all transactions.⁵⁹ More complex, however, is the fact that the distinction between private and public companies is not clear. China's COSCO group of companies, for example, incorporates publicly traded components of state-owned enterprises that own stakes or operate in "ports from the Baltic to the Bosphorus."⁶⁰

China's Inroads into Eastern & Southern Europe

Beijing's acquisitions in and closer ties with Southern European countries, such as Greece, is a cause for concern in Brussels. Also of concern, is the ever-closer relationship between Beijing and the EU's poorer Eastern countries and the non-EU European states—now arranged in a sub-regional grouping known as the "Cooperation between China and Central and Eastern European Countries," more commonly known as "the 16+1." Led by China, the 16+1 configuration includes eleven EU members and five non-EU countries from the Balkans.⁶¹ Though not a member, Greece has attended the group's annual summit.

The launch of the 16+1 group initiative in April 2012 was billed as cooperation around the OBOR initiative, based on investment and trade. Indeed, many of the large-scale investments made to date have been in infrastructure, including the Budapest-Belgrade high-speed railway that was built by Chinese companies. However, despite the focus on infrastructural development, it is instructive that Qi Xuchun, vice chairman of the Chinese Peoples' Consultative Conference, has called for enhanced cooperation between the sixteen European members and China on international and regional affairs. This was followed at the group's 2017 summit in Riga with a call from Chinese Premier Li Keqiang for the assembled leaders to "properly resolve hot issues and maintain world peace and regional stability."⁶²

The European countries of the 16+1 seek Chinese investments and capital to finance critical infrastructure, including ports, railways, power stations, and roads. Investments are also needed to stimulate the creation of much-needed jobs. For some, like Serbia, Chinese investments also repre-

sent an important source of capital to facilitate reforms needed to qualify for EU membership. The importance of this relationship was underscored in Hungarian Prime Minister's Viktor Orbán's statement:

The world economy's center of gravity is shifting from west to east: while there is some denial in the western world, that denial does not seem reasonable. We see the world economy's center of gravity shifting from the Atlantic region to the Pacific region. This is not my opinion—this is a fact.⁶³

While Eastern European countries have welcomed the USD 15 billion in new investments since 2012, with promises of more, their significance to China lies in their importance as a bridge to the EU. Indeed, Milos Zeman, president of the Czech Republic has spoken of his country as a “gateway” for the People's Republic of China to the EU.⁶⁴ Eastern European countries are using their relationship with the EU to leverage closer ties with China, in pursuit of additional Chinese resources. At the same time, the tightening ties with China are also being used as leverage in negotiations with Brussels on a number of issues.

The matter of China is one which does not lend itself easily to an EU-wide approach, given both the structural economic differences within the EU divided along a North-South axis, and the historical East-West divide with respect to values, norms, and ideology. Recent pronouncements regarding plans for EU expansion with respect of Serbia, for example, are viewed as an attempt to counterbalance growing Chinese influence and power. These increasing Chinese investments in Europe require a very delicate balance between conflicting interests and alliances between Beijing and Brussels.

European member countries, like Greece, have presented opportunities for Chinese investments and influence-wielding. On February 8, 2017, the land-sea OBOR trade route between China and Central Europe through the Greek port of Piraeus officially opened when two Chinese trains arrived in Hungary carrying Chinese made goods. Containers had been shipped from the eastern Chinese port of Ningbo to the Greek port, and then onwards by train to Hungary, inaugurating this section of the OBOR initiative and commissioning the 67-percent stake in the port acquired by China's COSCO.⁶⁵

Greece had suffered devastating effects from the economic recession of 2008 and 2009 and then was significantly impacted by the European refugee crisis of 2015 and 2016.⁶⁶ For China, the Greek economic crisis offered the opportunity to snap up investments at cut-rate prices—and

crucially, in the part of the EU closest to the strategic Suez Canal shipping lane. Importantly, the majority of Chinese companies operating in Greece are subsidiaries of large SOEs, and China is itself the “common parent” of all the companies with current investments in the country.⁶⁷ While these companies function primarily as commercial entities, they do not operate independently from the Chinese political system.

In Europe, the Greek crisis and resulting political turmoil threatened the very stability of the Union, further straining the long-simmering North-South divide over issues of economic and monetary governance. As Greek leaders struggled with Brussels and Germany over the bitter pill of austerity measures, privatization of state-owned assets, and bailout conditions,

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China offered the beleaguered country an economic lifeline—one that could not be ignored. It acquired Greece’s largest port, in Piraeus, and unveiled plans to transform it into a major hub linking Asia and Europe.⁶⁸ In many ways, this investment was made possible by the conditions for Greece’s third bailout arranged by EU and IMF creditors, who demanded the privatization of major state-owned assets. By liberalizing the Greek economy, the

EU provided a windfall of investment opportunities to the Chinese and seeded the ground for future challenges to its own unity of purpose.

Since 2008, close to EUR 9 billion of Chinese investments have poured into Greece—an equivalent to 5 percent of the country’s GDP.⁶⁹ Investments have flowed mainly into telecommunications, energy, ports, real estate, and tourism, including stakes in Athens International Airport.⁷⁰ “The Greek economy is thirsty for investments, and the presence of Chinese companies is important and we welcome it,” said Greece’s Prime Minister in September 2017.⁷¹ The China Development Bank has also established a foothold in the country, providing capital for infrastructure and other projects—investment that has proven vital given national banks’ limited ability to provide that type of liquidity.

Within the EU, Greece has become a leading voice in demanding that the Union take a softer line toward China. In doing so, it is reducing the status of human rights relative to other EU values and priorities. In June 2017, Greece blocked an EU resolution criticizing China’s human rights record at the UN Council on Human Rights. It has sided with Eastern

European countries on several other matters pertaining to China. Already, Chinese investments are yielding important conduits by which China's interests are served at the expense of those of the European Union.⁷³

EU Concerns with Chinese Investment

The concern in Brussels is that China's bilateral relationships with EU member states creates a channel through which Beijing engages in wedge diplomacy—exploiting East-West tensions and undermining the integrity of the Union, while securing its own interests. While China stresses the commercial intentions behind its investment inroads into Europe, the EU views China's wider geostrategic motives as self-evident. This line of thinking is supported by the fact that the 16+1 secretariat is located within China's Ministry of Foreign Affairs and that most initiatives are executed bilaterally through Chinese officials identified as “national coordinators.”⁷⁴ The bilateral format enables China in deploying divide and conquer tactics to secure its interests. China now controls 10 percent of European port capacity and is pushing for exemptions for Chinese companies from EU Single Market rules in procurement—behavior reinforcing the EU's overarching concerns.

There is also growing suspicion that these Chinese investments are part of the state-driven “Made in China 2025” initiative, launched in 2015, which explicitly calls for China's transformation into a dominant actor in robotics, aeronautics, and offshore exploration. The attractiveness of European specialized technology firms to China has fueled concerns regarding the potential use of European know-how at the expense of Western firms. The Chinese buyout of the German robotics firm KUKA in 2016 for USD 5 billion has augmented these fears.⁷⁵

There are other reasons for concern. Brussels was alarmed by the Greek veto of EU criticism against China's human rights record, but this instance of Greek opposition was preceded in March 2017 by Hungary's refusal to sign a joint letter rebuking China for torture of detained lawyers. This EU alarm dates back even further to the year before when it debated an EU response to the Permanent Court of Arbitration's ruling that China's claims in the South China Sea were without merit. Following three full days of “difficult” discussions among member states, “opposition, mainly from Greece and Hungary, succeeded in weakening the EU statement to the extent that it did not directly mention China.”⁷⁶

A more recent source of tensions within the bloc lies in EU President Claude Juncker's September 2017 call for the EU to “protect its collective

security,” by allowing acquisitions or investments in major infrastructure and military technology companies to proceed only on the basis of “transparency, security and debate.”⁷⁷ This raised additional tensions regarding the rights of individual sovereign states to exercise discretion over investment and trade flows via bilateral arrangements, rather than with EU oversight. Several EU member states lobbying on behalf of China successfully reduced the ambition of the investment review process with a non-binding legal remit, limiting Brussels’ powers to provide guidance and to request pertinent details on takeovers.⁷⁸

EU member states with ties to China have taken advantage of EU unanimity requirements to undermine the bloc’s ability to create policy based on its values. This trend has led to concern about the EU’s ability to project power—not only at home and within regional power structures, but also globally. These developments are undermining EU unity, EU relations with partnership countries, and EU coherence in its policy on China.

The seriousness of the situation was underscored by the German Vice Chancellor and Foreign Minister Sigmar Gabriel’s call, in September 2017, for Beijing to “respect the concept of one Europe.” He added, “If we do not succeed in developing a single strategy towards China, then China will succeed in dividing Europe.”⁷⁹ Cui Hongjian, a director of a Chinese think tank in China’s foreign ministry, delivered an instructive rebuttal, saying, “One Europe is feasible geographically, but not in terms of politics and the economy.”⁸⁰

THE EUROPEAN UNION’S RESPONSE TO CHINESE INVESTMENTS

Unlike the United States, neither the EU nor its member states have historically considered China a strategic adversary. China has primarily been viewed through the commercial lens—as a competitor, partner, and occasional threat.⁸¹ However, particularly in recent times, growing concerns about Chinese ambitions, and the sense that Chinese investments are but a Trojan Horse for more sinister motives, have prompted the EU to engage in a range of policy reviews that seek to contain China. But the EU must exercise caution. Given the reality of Brexit and the waves of populism sweeping across the continent, the last thing the Commission needs is a revolt within its ranks.

The new strategy for EU-China relations speaks to the need to hold China to a rules-based international order. Importantly, the new strategy recognizes the need for the EU and its member states to project a “strong, clear unified voice”⁸² and to keep matters “relevant to the EU...in line with

EU rules, laws and policies.”⁸³ Since February 2017, the EU, led by member states Germany, France, and Italy, has been working on a framework for an investment screening mechanism. However, while this failed to garner traction because of opposition by Greece, Ireland, Portugal, and Spain, more recently, on June 13, 2018, EU Ambassadors agreed to the Council’s “stance regarding regulations for the screening of investments from third countries in strategic sectors, requesting that negotiations commence with the European Parliament as soon as possible.”⁸⁴

Several other EU policy responses are of special significance, given their systemic break from past policies. The first is the fact that EU spending on its near neighborhood, Eastern Europe, over the last four years has increased by more than four times normal spending levels. This is especially significant given the EU policy of support for “the poorest of the poor” and “countries most in need.”⁸⁵ Eastern European countries receiving support are all middle income and ineligible for official development assistance under OECD Development Assistance Cooperation rules.

EU special support for Eastern European countries has recently been confirmed in its new budget.⁸⁶ This support is clearly a response to the need to balance Chinese influence on the EU’s Eastern flank by significantly increasing the amount of funds deployed in support of the Near Neighborhood policy.

A third observation relates to the fact that, despite much talk regarding “expansion fatigue,” the EU has also officially unveiled plans to restart talks on extending the carrot of EU membership to Serbia, Montenegro, Macedonia, and Albania. None of these countries are expected to qualify for some time, but applications are being processed in accordance with steps identified in the Copenhagen Criteria of 1993, and Article 49 of the Treaty of Maastricht.

Finally, in an effort to shore up its southern flank, the EU has reduced by 90 percent the stabilization funds that had previously gone to Hungary and Poland and shifted this support to Greece and Spain. In this way, EU strategy, which in previous budgetary cycles was focused on development cooperation abroad, seems to be now turning inwards, seeking to preserve its coherence and integrity in face of threats to its influence in Europe from an ascendant China.

CONCLUSION

What is the ultimate implication of China’s strategy of power-by-investment for the liberal international order that has been upheld for the

last seven decades by the United States, Europe, and other Western allies? The answer is not entirely clear.

The current times, marked as they are by American isolationism and retreat even from its allies, coupled with the rise of China's own commercial, economic, and political assets, raise significant debate about the future of the liberal international order. While there is no consensus regarding the full extent of what is at stake, it is clear that other great powers, like China, have their own vision of the international system and seek to act upon it.

Weighing and balancing the Chinese challenge to the Western liberal order is made harder by a "simultaneously and not coincidental crisis of confidence in the West."⁸⁸ With its growing projection of power and influence through commercial-led conduits around the world, including Europe, China's rise is causing status problems for both Europe and the United States.

It is difficult, however, to determine how to balance China effectively without a united transatlantic alliance. The transatlantic dialogue is fractured. In response, the EU is trying to accommodate China through a blend of pragmatic realism and cooperative relationship building, while

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and others, and keeps Europe engaged and on the radar in its dealings and planning on the China question."⁸⁹ Current U.S. practices and policies puts this prescription in doubt.

Despite its increasing power, China is still a developing country trying to balance growing international responsibilities with domestic realities and concerns. China, as a "geo-economic" bank with USD 1 trillion to invest, can do much to improve the world and to provide the infrastructure that allows many countries to improve their access to supply chains, increasing prospects for global prosperity and stability. China is also well-positioned to contribute meaningfully to the status quo and to jointly share responsibilities on matters on which interests converge. But a certain amount of accommodation will have to take place. Perhaps the focus should be less on containment of China and more about bringing the country to the table—not in the hope that it becomes more Western, but in recognition of its role in promoting development around the world.

..... remaining determined to preserve notions of shared values and common principles. However, the wider geostrategic implications of China's rise and challenges to the liberal international order require that the United States assert a more active leadership role—one which "differentiates between allies

Having engaged in a very visible anti-corruption crusade at home, China now seems eager to put its relationships with other states on a new footing. As these relationships mature, China itself is coming to terms with its increasingly global responsibilities and the need to improve its image. One cannot help but note that China cherry-picks the Western norms and values that benefit its interests at home and abroad. It is engaging the EU and World Bank in these efforts. In 2017, China published new guidelines for Chinese external investments, and the AIIB spoke of a commitment to “world class standards.”⁹⁰ Importantly, China recently requested EU support to develop mechanisms to provide for due diligence, transparency in procurement, training in compliance, and the development of project management skills in preparation to further its commercial relations in Africa and elsewhere.⁹¹ China has also requested EU support in designing a social protection system and health and safety provisions for workers, as it continues to make the transition to a consumption-driven economy.

The World Bank is also providing training to hundreds of Chinese project managers and accounting specialists. While this is encouraging, China is not a democracy, does not pretend to be one, and does not aspire to move in that direction. The West needs to come to terms with this reality. The tactic of trying to isolate China has had limited success. Many Western allies have deepened cooperation with China, and Asia has seen quickly expanding Chinese ties—trade and otherwise. It is time to consider a different approach.

That there will be conflicts cannot be doubted, but conflicts with China—outside of the South China Sea—seem unlikely to escalate on their own accord any time soon. China's ascendancy stems from a convergence of circumstances that are part of the changing dynamics of international politics. Today, we see a world order less tightly grouped around ideology, and the lines between east and west, north and south are becoming blurred. We are witnessing coalitions of states and non-state actors drawn together around agendas of global public goods, such as climate change, equity, and terrorism. A more consciously cosmopolitan world is emerging and taking root.⁹² Western and other societies are increasingly reluctant to face the costs of war. While the threat and tools of war have their place among foreign policy options at the disposal of states—especially among those of the nuclear club—the reality of mutual deterrence is a powerful constraint on their utility. As Princeton's Aaron Friedberg assesses, different elements of power possess different utilities at different times.⁹³ Despite its deficiency in military capability, China boasts a unique blend of soft and hard power today that seems well-suited to these times.

- 16 Colin S. Gray, *Hard Power and Soft Power: The Utility of Military Force as an Instrument of Policy in the 21st Century* (Carlisle Barracks: Strategic Studies Institute, U.S. Army War College, 2011), 48.
- 17 Joseph S. Nye, *Bound to Lead: The Changing Nature of American Power* (New York: Basic Books, 1990).
- 18 Joseph S. Nye, *Soft Power: the Means to Success in World Politics* (New York: Public Affairs, 2004), 11.
- 19 T.V. Paul, "Recasting Statecraft: International Relations and Strategies of Peaceful Change," *International Studies Quarterly* 61(1)(2017), 12.
- 20 Despite American-led best efforts, fifty-seven countries, including the UK and other Western European allies and most Asian countries, are listed among the Bank's founding members.
- 22 Nye, *Soft Power*, 4.
- 23 On May 31, 2018, the U.S. government announced trade levies on rolled steel and aluminum on China, the EU, Japan, South Korea, Canada, and Mexico. Canada, Chinese, Mexican, and EU retaliatory tariffs were announced within days.
- 24 Mission of the People's Republic of China to the European Union, *China's Policy Paper on the EU: Deepen the China-EU Comprehensive Partnership for Mutual Benefit and Win-Win Cooperation*, April 2, 2014, <https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/wjzcs/t1143406.shtml> (accessed November 20, 2018).
- 25 Ibid.
- 26 On June 26, 1989, the European Council of Ministers agreed to an arms embargo as part of a raft of EU-wide diplomatic and economic sanctions in response to the violent state-led suppression of protests in Beijing known as the Tiananmen Square protests of April 15, 1989 to June 4, 1989.
- 27 *European Union, Trade in Goods with China*, European Commission, April 16, 2018, <http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113366.pdf> (accessed November 20, 2018).
- 28 *EU-China Relations Factsheet*, ID 171027_16, May 30, 2018, <https://ec.europa.eu/headquarters/headquarters-homepage_is/34728/EU-China%20Relations%20factsheet> (accessed November 20, 2018).
- 29 Plamen Tonchev and Polyxeni Davarinou, *Chinese Investment in Greece and the Big Picture of Sino-Greek Relations*, Institute of International Economic Relations, December 4, 2017, 50.
- 30 Tonchev and Davarinou, 55.
- 31 Ibid., 56.
- 32 These include the EU Global Strategy dealing with its Foreign and Security Policies, which reflects EU Grand Strategy published in June 2016 and the revised European Consensus for Development (2017). The EU's approach to the bilateral relationship is expressed in the EU-China 2020 Strategic Agenda for Cooperation, which guides execution of the EU-China Comprehensive Strategic Partnership.
- 33 *Joint Communication to the European Parliament and the Council: Elements for a New EU Strategy on China*, European Commission, June 22, 2016.
- 34 Ibid.
- 36 Jie Yu, "After Brexit: Risks and Opportunities to EU-China Relations," *Global Policy* 8 (4) (June 2017), 109.
- 37 Over time, many groups which are party to such cooperation agreements have questioned the degree to which such values are genuinely shared. There has been significant pushback by several African countries on EU action on behalf of LGBT rights and those relating to the role of civil society in governance matters.

- 38 Jie Yu, "After Brexit: Risks and Opportunities to EU–China Relations," *Global Policy* 8 (4) (June 2017).
- 39 *Ibid.*, 112.
- 40 Jie Yu, personal communication, June 21, 2018.
- 41 *Ibid.*
- 42 Shada Islam, "Stop Whining and Start Rethinking the Global Rulebook," *Friends of Europe*, June 19, 2018, <<https://www.friendsofeurope.org/publication/stop-whining-and-start-rethinking-global-rulebook-shada-islam>> (accessed June 29, 2018).
- 43 *Ibid.*
- 44 Megan Specia, "EU Official Takes Donald Trump to Task: 'With Friends Like That'..." *New York Times*, May 16, 2018, <<https://www.nytimes.com/2018/05/16/world/europe/europe-donald-tusk-tweet-trump.html>> (accessed November 20, 2018).
- 46 Islam.
- 47 European Commission, Press Release, October 19, 2018, "ASEM Summit: Europe and Asia – Global Partners for Global Challenges," <http://europa.eu/rapid/press-release_IP-18-6136_en.htm> (accessed October 27, 2018).
- 48 Joshua Kurlantzick, "China's Soft Power Offensive, One Belt One Road, and the Limitations of Beijing's Soft Power," *Council on Foreign Relations*, May 16, 2017, <<https://www.cfr.org/blog/chinas-soft-power-offensive-one-belt-one-road-and-limitations-beijings-soft-power>> (accessed November 20, 2018).
- 49 Manuel.
- 50 During the most recent Summit of the Forum of China-Africa Cooperation in September 2018, African leaders stressed the need for changes to the model of development cooperation between the two parties and requested that financing supports the continent's social services and local job creation.
- 51 Manuel.
- 52 *Ibid.*
- 53 Jeffrey W. Taliaferro, personal communication, July 12, 2018.
- 54 Andre Tartar, Mira Rojanasakul, and Jeremy Scott Diamond, "How China is Buying its Way into Europe," *Bloomberg*, April 23, 2018, <<https://www.bloomberg.com/graphics/2018-china-business-in-europe>> (accessed November 20, 2018).
- 55 *Ibid.* Holdings are said to encompass at least 360 companies, including iconic European companies such as Pirelli & C. SpA, Scandinavia's premier car maker Volvo Personvagnar, German industrial and technological robotics company Kuka AG, and Irish aircraft leasing giant Avolon Holdings Ltd., plus "four airports, six seaports, wind farms in at least 9 countries, and 13 professional soccer teams."
- 56 *Ibid.*
- 59 *Ibid.*
- 60 *Ibid.* State-owned or backed companies were among eight of the top ten firms involved in acquisitions of European assets over the period and several other entities were found to be owned by Chinese provinces or municipalities demonstrating a clear official Chinese interest in the continent of Europe. Deeper evaluations have found that the most valuable companies link back to a single parent company, the Chinese State.
- 61 The countries involved include: Hungary, Poland, Bosnia and Herzegovina, Romania, Bulgaria, Slovenia, Croatia, Serbia, Macedonia, Albania, Slovakia, Czech Republic, Montenegro, Lithuania, Estonia and Latvia, out of which Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia constitute the eleven EU members.
- 62 James Kynge and Michael Peel, "The Big Read: Chinese Trade. Brussels Rattled as

- China Reaches out to Eastern Europe,” *The Financial Times*, November 27, 2017, <<https://www.ft.com/content/16abbf2a-cf9b-11e7-9dbb-291a884dd8c6>> (accessed November 20, 2018).
- 63 Ibid.
- 64 Angela Stanzel, “Xi’s Visit to the Czech Republic,” European Council on Foreign Relations, April 7, 2016, <https://www.ecfr.eu/article/commentary_xis_visit_to_the_czech_republic6083> (accessed November 20, 2018).
- 65 Tonchev and Davarinou, 14.
- 66 Ibid., 15.
- 67 Ibid., 6.
- 68 Helena Smith, “Greece Blocks EU’s Criticism at UN of China’s Human Rights Record,” *The Guardian*, June 18, 2017, <<https://www.theguardian.com/world/2017/jun/18/greece-eu-criticism-un-china-human-rights-record>> (accessed November 20, 2018). The port of Piraeus has partnered with the port of Shanghai in a deal that multiplies the containerized shipping between the two ports. China has also recently acquired a controlling stake in Greece’s public sector power grid operations, injecting additional foreign exchange into Greece.
- 69 Tartar, Rojanasakul, and Diamond.
- 70 Ibid.
- 71 Ibid.
- 73 In the meantime, China’s SOE, COSCO, has purchased major shares in several other Mediterranean ports, including Kumport in Turkey, Naples in Italy, and Valencia and Bilbao in Spain, as well as other investments in northern European ports at Zeebrugge in Belgium and Rotterdam in the Netherlands.
- 74 Kynge and Peel.
- 75 *China’s Relations with U.S. Allies and Partners in Europe: Testimony before the U.S.–China Economic and Security Review Commission*, 115th Congress (2018) (statement of Erik Brattberg, Carnegie Endowment for Peace).
- 76 Kynge and Peel.
- 77 Ibid. Hungary’s failure to follow EU procurement rules on the construction of the USD 2.9 billion Chinese-financed high speed 350 km rail link with Serbia catalyzed an EU Commission inquiry regarding the possible breaching of EU law regarding procurement.
- 78 Ibid.
- 79 Ibid.
- 80 Ibid.
- 81 Kynge and Peel.
- 82 Joint Communication to the European Parliament.
- 83 This caution was inserted as a clear warning to countries such as Greece, Hungary, and others that participate in the annual 16+1 summit with China and have in recent years used the consensus vote to block EU censure of China’s human rights record and activities in the South China Sea.
- 84 “Screening of Investments: Council Agrees Its Negotiating Stance. European Council Press Release.” June 13, 2018. <<https://www.consilium.europa.eu/en/press/press-releases/2018/06/13screening-of-investments-council-agrees-its-negotiating-stance/>> (accessed November 20, 2018).
- 85 “The (New) European Consensus on Development,” 2017, European Commission, <https://ec.europa.eu/europeaid/policies/european-development-policy/european-consensus-development_en> (accessed November 20, 2018).
- 86 The European Union makes decisions with respect of its Multiannual Financial

- Framework (MFF) every seven years. The EU's next budget will commence on January 1, 2021 and was presented in early June 2018. It will be the EU's first as a Union of 27 members and is meant to respond to a number of new realities, one of which is the Article 50 withdrawal of the United Kingdom and the resultant financial implications
- 88 "Briefing China and the West," *The Economist*, March 3, 2018, 20, <<https://www.economist.com/briefing/2018/03/01/decades-of-optimism-about-chinas-rise-have-been-discarded>> (accessed November 20, 2018).
- 89 Brattberg, testimony on *China's Relations with U.S. Allies and Partners*.
- 90 Ibid.
- 91 EU official, personal communication, April 26, 2018.
- 92 Paul, 10.
- 93 Aaron L. Friedberg, *The Weary Titan: Britain and the Experiences of Relative Decline, 1895-1905*, (Princeton, NJ: Princeton University Press, 1988), 308.
- 94 Graham Allison, "The Myth of the Liberal Order: From Historical Accident to Conventional Wisdom," *Foreign Affairs*, July/August 2018 issue.