



China's Global Influence: Perspectives and Recommendations



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China and Europe

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1 The views and recommendations expressed in this chapter are those of the author and do not necessarily reflect the policy or position of the George C. Marshal European Center for Security Studies, US Department of Defense, or US Government.

INTRODUCTION: WHAT ARE CHINA'S OBJECTIVES IN EUROPE?

China's designs in Europe are economic and geopolitical. European policymakers are waking up and responding to Beijing's commercial and diplomatic policies in Europe. In a revolutionary change for the diplomatic language of the European Union (EU), China has shifted from a "strategic partner" to a "negotiating partner." This change has been the result of new economic and security developments in Europe driven by Beijing's efforts to extend its political influence in the continent. The EU is seeking to find a balance of interests with China as an "economic competitor" in the pursuit of technological leadership, and as a "systemic rival" promoting alternative models of governance, according to the EU Commission's "EU-China: A Strategic Outlook," published in March 2019.²

China is the largest partner for EU's imports, and the second largest partner for its exports.³ The current trade volume of USD575 billion is heavily tilted in favor of China by about USD176 billion,⁴ but the aim is to reach USD1 trillion in trade volume, in line with the EU-China 2020 Strategic Agenda for Cooperation.⁵ The main change is the increased Chinese investment footprint in Europe, mainly from state-owned enterprises (SOE), initially facilitated by the need for financing in several European countries severely affected by the Eurozone crisis.

Chinese investment in the EU is both strategic and long term. Beijing's interests in Europe are manifold, from the need for new technologies and knowledge, to broader access to the European market for their goods and services, as well as access to third markets, such as the United States (US). Chinese investors are looking for brand names to improve marketability of their products (both at home and abroad) and become key players in integrated regional and global value chains. These interests are focused on strategic investment in the core European Union countries and infrastructure development projects in its periphery, both

2 "EU-China: A Strategic Outlook," European Commission and High Representative of the Union for Foreign Affairs and Security Policy, 12 March 2019, <https://ec.europa.eu/commission/sites/beta-political/files/communication-eu-china-a-strategic-outlook.pdf>.

3 "China-EU: International Trade in Goods Statistics," March 2019, https://ec.europa.eu/eurostat/statistics-explained/index.php/China-EU_-_international_trade_in_goods_statistics#EU_and_China_in_world_trade_in_goods.

4 "EU Bilateral Trade and Trade with the World: China," 15 September 2006, http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113366.pdf.

5 "EU-China 2020 Strategic Agenda for Cooperation," http://ec.europa.eu/archives/docs/china/docs/eu-china_2020_strategic_agenda_en.pdf.

aiming at higher political and diplomatic influence in Europe.⁶ The stable legal, regulatory, and political environment in Europe offers unique business opportunities for Chinese investors, who need its open markets, intellectual property, and strategic location.

Investment Paradigm Shift

The current trend of investment unbalance is much more concerning than the long existing trade unbalance in Sino-European relations. Chinese foreign direct investment (FDI) in the EU has increased almost 50 times in eight years, from less than USD840 million in 2008, reaching a record USD42 billion in 2016.⁷ Total Chinese investment in Europe, including mergers and acquisitions (M&A) and Greenfield investments, amount to USD348 billion, and includes Chinese takeover of more than 350 well-established European companies.⁸

Cumulative Chinese FDI in Europe remains low, representing only 2.2 percent of total FDI, and minimal compared with the 38 percent held by the US in 2016. Similarly, EU countries held only 4 percent of total FDI in China in 2016, compared to 36 percent in the US.⁹ While still comparatively low from a global perspective, Chinese investments in the EU are evolving rapidly. China is investing nine times more in Europe than in North America as a result of escalating Sino-US trade disputes and stricter US national security screening procedures. These measures were reflected in the 92 percent drop of Chinese FDI into the US, from USD24 billion to USD2 billion. Tellingly, in the first six months of 2018, newly announced M&As into Europe were USD20 billion compared to USD2.5 billion in North America.¹⁰

While Europe is a net investor in the global economy, and European investment into China has historically been higher than Chinese

6 Valbona Zeneli, "Central and Eastern Europe: China's Stepping Stone to the EU?" *Diplomat*, 30 November 2016, <https://thediplomat.com/2016/11/central-and-eastern-europe-chinas-stepping-stone-to-the-eu/>.

7 Thilo Hanemann and Mikko Huotari, "A New Record Year for Chinese Outbound Investment in Europe," Rhodium Group, 16 February 2016, <https://rthg.com/research/a-new-record-year-for-chinese-outbound-investment-in-europe/>.

8 Andre Tartar, Mira Rojanasakul, and Jeremy Scott Diamond, "How China Is Buying Its Way into Europe," *Bloomberg*, 23 April 2018, <https://www.bloomberg.com/graphics/2018-china-business-in-europe/>.

9 Eurostat, "The EU Continues to Be a Net Investor in the Rest of the World," Eurostat news release, 12 January 2017, <https://ec.europa.eu>.

10 Niall McCarthy, "China Is Investing Nine Times More in Europe Than North America," *Forbes*, 18 July 2018, <https://www.forbes.com/sites/niallmccarthy/2018/07/18/china-is-investing-nine-times-more-in-europe-than-north-america-infographic/#5fa51e397a8c>.

flows into Europe, the tide has turned. In 2016, new Chinese investment in the EU was more than four times European FDI in China (USD9 billion). In 2017, Chinese outbound investment represented 12.3 percent of its Gross Domestic Product (GDP),¹¹ these levels are still low compared to the most advanced countries, such as United Kingdom (UK) (58%), France (56%), Germany (43%), and US (40%), meaning the room for expansion is quite big.

“Going Out” Strategies

China is now the world’s second largest economy, after the US, with a 2018 GDP of USD13.5 trillion. It is the largest exporter of goods, comprising 17 percent of world exports, and the third largest importer, with 12 percent of global imports.¹² Since 1980, the Chinese economy has been growing at almost 10 percent annually.

While economic growth rates in China remain high by international standards, they are in steady decline. General Secretary Xi Jinping’s promise to maintain economic growth rates has been described by some as “sustaining the unsustainable.” Following the guidelines of the Chinese Communist Party’s (CCP) five-year economic plan, Beijing’s focus is on the internalization of Chinese companies, both SOEs and private firms, aiming to restructure SOEs, advance innovation, and promote Chinese entrepreneurship in the global economy. As the Chinese economy matures, outbound FDI is becoming one of its main drivers to promote economic growth at home, and thereby ensure the future political stability of the CCP. In fact, the speed of Chinese investment in the global economy has been unprecedented. From 2001 when China was invited to join the World Trade Organization (WTO), its outward investment has increased by 30 times, from USD6.9 billion (1% of global FDI) to USD197 billion in 2017 (almost 13% of global FDI).

Beijing is currently implementing its second “Go Out” phase. The first one, in the early 2000s, was directed at exploring viable market opportunities, trade relations, and access to natural resources in the developing world (Asia, Africa, and Latin America). In the current “go global” phase, Beijing’s main objective is to move up the high technology ladder—focusing its investments on advanced technologies and knowledge industries—by increasing its footprint in developed economies.

11 Author’s calculations based on United Nations Conference on Trade and Development data, <https://unctad.org/en/Pages/Home.aspx>.

12 “China-EU: International Trade in Goods Statistics.”

As technological innovation becomes the primary source of economic development and wealth, Beijing's main long-term objective in Europe is to engage more closely with advanced Research and Development (R&D) networks. China is not yet an innovation powerhouse, although its spending on R&D is rising rapidly, reaching almost 2 percent of GDP in 2015. Continuing to display high growth in R&D, China accounted for nearly one-third of the global R&D spending growth over the 2000-2015 timeframe.¹³ The United States is by far the largest R&D performer (USD1.9 trillion) making up almost 30 percent of the world total, followed by China, which has now surpassed the EU.

Notwithstanding China's rapid advances, high-technology manufacturing in China continues to be heavily dependent on lower value-added activities, such as final assembly, and is reliant on technologies supplied by foreign firms. Chinese companies are good at incremental innovation, but lag behind advanced countries when it comes to disruptive innovation. For Beijing to implement its "Made in China 2025," a ten-year plan to speed the development of high tech industries, it needs to take over important companies in Europe.¹⁴

HOW IS CHINA SEEKING TO ACHIEVE THESE OBJECTIVES? (ACTIVITIES AND RESULTING INFLUENCE)

One Belt, One Road

Since 2013, many Chinese projects in Eurasia have been incorporated into the One Belt, One Road (OBOR; 一带一路)¹⁵ initiative. A brain child of Xi Jinping, OBOR is a foreign policy narrative that exports the "China Dream" and now includes more than 70 countries and international organizations. The importance of OBOR was cemented when the 19th Party Congress wrote it into the constitution of the CCP.

Emulating the ancient Silk Road, with trading links between the Middle East, Europe, and China, OBOR is proactively spelling out the new Chinese international vision, placing China as a leader in the global economy. China aims to build new transportation networks to

13 "Overview of the State of the U.S. S&E Enterprise in a Global Context," National Science Foundation, 2018, <https://nsf.gov/statistics/2018/nsb20181/report/sections/overview/r-d-expenditures-and-r-d-intensity>.

14 "Made in China 2025," State Council, 7 July 2015, accessed 26 February 2019, <http://www.cittadellascienza.it/cina/wp-content/uploads/2017/02/IoT-ONE-Made-in-China-2025.pdf>.

15 The Editors have chosen to conform to the "One Belt, One Road" formulation of the initiative as initially propagated and as it is still discussed in Chinese language documents. For a complete explanation of this decision, see the introduction to this volume, p 9.

Europe, one going through Central Asia to Europe, and the other across the oceans from China's coastal regions, across the India Ocean, and through the Mediterranean Sea.

Xi Jinping described OBOR as a massive economic platform, with the objective to extend beyond infrastructure construction and linkages, to include greater financial integration, lower barriers for trade and investment, and an Information Silk Road linking regional information and communication technology networks.¹⁶ This mega project would not only unlock the potential for new sources of growth and export some of China's excess industrial capacities in its struggling industries (construction, steel, and cement), but also diversify the PRC's resource supply routes, which still largely transit the narrow Strait of Malacca.

Like the old Silk Road, OBOR will stimulate geopolitical competition, allowing China to project its power across several continents. One hears echoes of the claim made one hundred years ago by the father of geopolitics, Halford Mackinder, and his warnings that China would one day threaten to upset the global balance of power by organizing resources of Eurasia and becoming a sea power. This insight clarifies the strategic implications of OBOR—why the PRC needs to expand relations with Europe, strengthen diplomatic and economic inroads into Africa, and build its capacity to employ sea power.

China seeks to accomplish these goals by building infrastructure and networks, while rallying diplomatic and political benefits to Beijing. Having promised to contribute more than USD700 billion in infrastructure projects and loans to partner governments, Beijing repeats the mantra of a “win-win” situation, where everyone comes out with something. While at the beginning OBOR was seen as a potential boost for European economic recovery, it has recently brought growing concerns. After a few years of the “wait and see approach,” in 2018 the European Commission published its “Strategy on Connecting Europe and Eurasia,” addressing transport, energy, digital economy, and people-to-people contacts, based on western economic and institutional norms and principles. This document completely ignores OBOR.¹⁷ While the EU was slowly formulating its strategy towards OBOR, China was carefully targeting

16 “Full Text of Xi Jinping's Report at 19th CPC National Congress,” *Xinhua*, 3 November 2017, http://www.xinhuanet.com/english/special/2017-11/03/c_136725942.htm.

17 “Connecting Europe and Asia: Building Blocks for an EU Strategy,” European Parliament, the Council, the European Economic and Social Committee, the Committee of the Regions, and the European Investment Bank, 19 September 2018, https://eeas.europa.eu/sites/eeas/files/joint_communication_-_connecting_europe_and_asia_-_building_blocks_for_an_eu_strategy_2018-09-19.pdf.

individual European countries. Currently, fourteen EU member states have signed bilateral agreements with Beijing, officially becoming members of OBOR, including the main southern entry points into Europe: Greece, Italy, and Portugal. While the EU waited, the PRC has slowly penetrated its “softer” central and southern periphery, with the aim of taking control of the main shipping ports in South Europe as entrepôts for the Chinese products.

Diversified Strategy in the EU

In the eyes of Chinese investors, Europe is portioned into three zones based on variances in economic wealth, technological advancement, and geographical location—west, south, east. This particular view drives a diversified strategy of Chinese investments in Europe.

In Western Europe, mainly the UK, Italy, France, Germany, and the Netherlands, Chinese investors aim to engage with Europe’s strategic assets and R&D networks. The four largest European economies have attracted the most Chinese investment. In 2017 the UK (USD70 billion), Italy (USD31 billion), Germany (USD20 billion), and France (USD13 billion) accounted for 75 percent of total Chinese FDI in the EU.

In Southern EU countries, new opportunities for Chinese companies have been created by the economic crisis and its consequences, which highlighted the need for capital through large-scale privatization and post-crisis restructuring. Southern Europe is strategic for Beijing for its geography, and three countries are crucial for OBOR’s objectives: Italy, Greece, and Portugal, all of them formal members of the initiative.

In Italy, Chinese investments since 2014 have soared to almost USD5.5 billion, corresponding to around 10 percent of total Chinese investment in European stock markets.¹⁸ Italy has a two-fold importance for China: internationally recognized brands and technology—which is why it receives investment levels similar to Western Europe—and for its geographic position. In the framework of China’s 21st century Maritime Silk Road (MSR), an integral part of OBOR, Italy represents one of the most important geostrategic locations for China in Europe.¹⁹

In Greece, the MSR began a few years ago with the flagship investment of the Chinese SOE giant COSCO (China Ocean Shipping

18 Andrea Franceschi, “Chi sono e cosa comprano i grandi investitori cinesi in Europa,” *Il Sole 24 Ore*, 4 May 2017.

19 Its flagship project is the five-port initiative involving the Italian ports of Venice, Trieste, and Ravenna, plus Capodistria (Slovenia) and Fiume (Croatia), linked together in the North Adriatic Port Association (NAPA).

Company) in the Port of Piraeus. By 2017 it had taken over 67 percent of the port authority and was granted a 40-year concession. As Europe's largest passenger port, serving more than 15 million passengers annually, it has subsequently become the main entry point for Chinese goods in Europe, handling more than 6 million containers yearly.²⁰ Considered "China's gateway to Europe," shortening shipping times by one week, Greece is central to Beijing for its strategic position connecting Europe, Near East, and Africa.²¹

In terms of per capita FDI, Portugal has become one of the largest European recipients of Chinese investments—almost USD10 billion.²² China arrived in the aftermath of the 2010 financial crisis, investing in a broad range of strategic assets, such as electricity, transportation, oil, financial services, insurance, health, and real estate.

In the fast-growing Eastern European region, prices for acquisition are lower, demand for preferential lending is high, human capital is cost-effective, and concessions for Chinese investors are plentiful. Above all, its location is a perfect bridgehead to the EU market and a key transit corridor for OBOR. In 2012—before the launch of OBOR—China formally launched the "16+1" Cooperation, which includes countries in Central, Eastern, and Southeastern Europe (from the Baltic to the Balkans), with the aim to increase trade, investment, cultural exchange, and people-to-people connectivity.²³ In April 2019, Greece joined the group, bringing the number of EU member states to 12 and changing the name to "17+1."²⁴ These countries present a heterogeneous group, including 11 EU countries and five EU candidate countries in the Balkans.²⁵ The differences across the region are significant, including the level of

20 Measured in TEU (twenty-foot equivalent units).

21 Frans-Paul Van Der Putten, "Chinese Investment in the Port of Piraeus: The Relevance for the EU and the Netherlands," *Clingendael Report*, February 2014, <https://www.clingendael.org/sites/default/files/pdfs/2014%20-%20Chinese%20investment%20in%20Piraeus%20-%20Clingendael%20Report.pdf>.

22 Philippe Le Corre, "Chinese Investments in European Countries: Experiences and Lessons for the Belt and Road Initiative in Rethinking the Silk Road," in Maximilian Mayer, *Rethinking the Silk Road: China's Belt and Road Initiative and Emerging Eurasian Relations* (Singapore: Palgrave-MacMillan, 2018), see <http://carnegieendowment.org/2017/11/27/chinese-investments-in-european-countries-experiences-and-lessons-for-belt-and-road-initiative-pub-74838>.

23 16+1 Summits: Warsaw (2012), Bucharest (2013), Belgrade (2014), Suzhou (2015), Latvia (2016), Budapest (2017), Sofia (2018).

24 Jens Bastian, "China in Europe: Greece Joins the 17+1 Network," *Corner*, 22 April 2019, <http://thecorner.eu/world-economy/china-in-europe-greece-joins-the-17-1-network/79551/>.

25 EU member states: Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia. Non-EU member states: Albania, Bosnia and Herzegovina, Macedonia, Montenegro, and Serbia.

economic development, per capita income, and institutional framework. Despite this, China approaches them as one region that maps to its main objectives: transportation networks for OBOR and investment locations for further capital expansion across the EU. Poland and Hungary, and their strategic geographic position, are seen as key players as transportation hubs for OBOR, both the overland route transiting Central Asia and the maritime route coming through the Balkans. Through the development of land-based transportation routes between the Greek Port of Piraeus and western European markets—including the high-speed Belgrade to Budapest railway—Beijing aims at creating conditions to dominate Eurasia.

Bilateralization of Relations with EU Member States

The increased presence of Chinese investment in the strategic sectors of several European countries has created economic interdependence for political ends. Beijing is trying to bilateralize relations with EU countries, a real danger that would affect the internal cohesion of the EU. By building strong economic and diplomatic relations with individual EU member states, Beijing can weaken EU unity on important issues sensitive to China, thus allowing Beijing to improve access to important markets, strategic assets, and new technologies without fearing confrontation. For example, the cooperation with eleven new EU members under “16+1” has created concerns in the EU that by building assets in Eastern Europe and fostering competition among the target countries, China is increasing its political influence in the region, enhancing its bargaining power with the EU, and increasing its ability to “divide and rule” Europe.²⁶ There is evidence foreign policy decisions in countries where the Chinese presence is higher have aligned with Beijing against EU common decisions on issues ranging from human rights to the South China Sea.²⁷ Greece, a “strategic partner” of China since 2006, joined by Hungary and Croatia, took a divergent view from the EU on two major occasions, plunging the EU’s foreign policy into disarray. In July 2016, they prevented the EU from backing the Permanent Court of Arbitration’s ruling in favor of the Philippines petition against China regarding South China Sea maritime claims. Greece also blocked the EU from issuing a statement on the PRC’s human rights records, calling it

26 Philippe Le Corre, “China’s Rise as a Goeconomic Influencer: Four European Case Studies,” *Carnegie Endowment for International Peace*, October 2018, <https://carnegieendowment.org/2018/10/15/china-s-rise-as-geoeconomic-influencer-four-european-case-studies-pub-77462>.

27 Ibid.

“unconstructive criticism of China.”²⁸ Similarly, Hungary was the only EU member that refused to sign a report criticizing Beijing’s OBOR in April 2018.²⁹ More recently, while the EU was trying to put in place a wide investment screening mechanism to ensure the security of strategic sectors in Europe, Italy (one of the three countries that had originally requested it), abstained from the vote in March 2019.³⁰

China is leveraging the EU unanimity rule to block statements or actions that are considered disadvantageous for Beijing. Similarly, when it comes to the Qualified Majority Voting (QMV), used in almost 80% of EU legislation, a group of 13 member states is enough to defeat any EU measure. With 14 EU member states now members of OBOR, it is increasing easy for Beijing to paralyze the EU decision-making process.

While the EU has published a common strategy towards China, the “EU-China: A Strategic Outlook,” to effectively implement it, European states will have to work together. This will be increasingly difficult in light of divergent interests of European countries vis-à-vis China. Furthermore, these differences are being leveraged and exacerbated by targeted PRC investment and diplomacy. If Beijing’s strategic investment in cash-starved and debt-burdened countries makes them more reluctant to take positions against Beijing, ruptures in the EU policy cohesion are likely to increase.

How Are These Activities and This Influence Perceived in the Region?

Many European economies, still not fully recovered from the Eurozone crisis, have looked positively at Chinese investments as a source of financial capital, growth, tax revenues, employment, infrastructure development, and market opportunities. Only in the last few years have concerns emerged, while European capitals struggle to find the right balance between the core principles of economic openness and security concerns related to a bigger footprint of China in Europe. Concerns include the role of the Chinese state in the economy, lack of reciprocity and fair competition, risk of losing national competitiveness, and

28 Ibid.

29 Dana Heide, Till Hoppe, Stephan Scheuer, and Klaus Stratmann, “EU Ambassadors Band Together against Silk Road,” *Handelsblatt Today*, 17 April 2018, <https://www.handelsblatt.com/today/politics/china-first-eu-ambassadors-band-together-against-silk-road/23581860.html>.

30 Valbona Zeneli, “Italy Signs on to Belt and Road Initiative: EU-China Relations at Crossroads?” *Diplomat*, 3 April 2019, <https://thediplomat.com/2019/04/italy-signs-on-to-belt-and-road-initiative-eu-china-relations-at-crossroads/>.

technological leadership, as well as more traditional security concerns related to critical infrastructure, strategic assets, and defense technologies.³¹ One initiative to address these concerns is proposed European Commission legislation to establish a common European framework for screening incoming FDI out of the fears Beijing might gain access to sensitive technology and know-how, as well as gain political influence.

Unfortunately, there is not a unified European response towards China. As old rivalries between EU member states resurface over issues of economy, sovereignty, and immigration, Beijing is joining the fray. In this respect, issues of national sovereignty over investment policies could prove a core theme of EU disagreement. The diverging views inside the EU are representative of diverging interests relative to the strengths and needs of European national economies. Technology and innovation-driven economies will tend to seek greater protection combined with careful exposure to the Chinese market. Those economies that are more reliant on internal consumption, tourism, and foreign capital see bigger benefits from Chinese investments and, therefore, have a different assessment of the risks that these investments entail for the protection of intellectual property and the loss of competitiveness.

As mentioned above, OBOR may emerge as a weapon in the hands of Beijing to create divisions inside the EU, but it also may be used by some European capitals not only to generate Chinese investment in their countries, but to assert their national independence from the EU institutions. In this framework, some smaller-sized new EU member states are concerned the proposed EU-level investment screening mechanism could be used by larger member states or the Commission itself to the benefit of some to the detriment of others.

Without a coordinated European approach, Chinese engagement in Central and Eastern Europe through “16+1” carries growing EU concerns about the possibility of the region becoming a “contested geo-economic space” between China and the EU. Among the most immediate challenges is the potential to shape the future decision-making in the EU or paralyze it when it comes to sensitive issues for China.

On the other side, the growing Chinese footprint in the Balkans has raised concerns over new geopolitical competition, with the EU warning “the Balkans can easily become one of the chessboards

31 John Seaman, Mikko Huotari, and Miguel Otero-Iglesias, eds., “Chinese Investment in Europe. A Country Level Approach,” European Think-Tank Network on China (ETNC) report, December 2017, <https://www.ifri.org/en/publications/publications-ifri/ouvrages-ifri/chinese-investment-europe-country-level-approach>.

where the big power game can be played.”³² Chinese investment could potentially give a massive infrastructure boost to countries in the Balkans—who definitely lag behind the EU countries in infrastructure and economic development. But Chinese money will not come without financial and political costs for debt-burdened countries in the Balkans, which risk ending up in “debt traps,” bringing additional concerns about future relations of these countries with the EU. Fears exist that China would use the Balkans as an entry point into the European market and promote its own political model at the expense of the EU’s model of liberal governance.³³ Stronger Chinese business presence, significant infrastructure investment, and cultural and media activities are increasing bonds between Beijing and individual Balkan governments, ready to partner with China.³⁴ In the absence of public debate about these issues, these initiatives are helping create popular perception favorable to China. The flow of PRC FDI is also distorting markets in favor of PRC businesses and creating political divisions across the continent.

HOW DOES ALL THIS AFFECT US NATIONAL INTERESTS IN THE REGION?

Europe is one of the most important engines of the global economy, with the biggest market in the world, a GDP of more than USD22 trillion, and some of the world’s highest levels of per capita incomes and relative purchasing power. The EU market remains the most important for the US, and the transatlantic economy is still the dominant force in the global economy. But emerging economic powers, especially China, seem to have shifted the value of the transatlantic economy from a position of preeminence with more than 45 percent of global GDP (in purchasing power parity) in 2000, to only 31 percent in 2018.

The transatlantic economy is a natural partnership consisting of mature, well-developed, and consolidated markets on one hand, and a strong defense relationship based on the North Atlantic Treaty Organization (NATO) on the other. Economic integration is the backbone of the transatlantic economy and centers on mutual investment. US in-

32 Michael Makocki, “China in the Balkans: The Battle of Principles,” *European Council on Foreign Relations*, 6 July 2017, https://www.ecfr.eu/article/commentary_china_in_the_balkans_the_battle_of_principles_7210.

33 Sigmar Gabriel, “The West Lacks a Strategy to Deal with China,” *Handelsblatt Today*, 17 September 2018, <https://www.handelsblatt.com/today/opinion/beijings-hegemony-the-west-lacks-a-strategy-to-compete-with-china/23583354.html?ticket=ST-745404-cHq23LZJQH2IHAl3xbL-ap1>.

34 Philippe Le Corre, “Chinese Investments in European Countries.”

vestment makes up 38 percent of FDI in the EU, which accounts for 36 percent of FDI in the US. The transatlantic economy is also the innovation powerhouse of the global economy, driving investment, management, and consumption. Coupled with common western values and liberal principles, this relationship has itself become a key interest of the US in Europe.

The increased Chinese footprint on Europe challenges concepts of traditional economic and geopolitical practices not only in Europe, but throughout the transatlantic economy. The US *National Security Strategy* (NSS) makes clear that China is seen as a great power rival not only militarily, but technologically. In his prophetic writings more than one hundred years ago, Mackinder warned that the strategic implications of an increased Chinese footprint in Eurasia and China's control of resources in the "Heartland," combined with Beijing's investment in sea power, could threaten to upset the global balance.

The increased flow of Chinese money and influence into Europe could position Beijing to shape the European economic landscape and its politics, thereby reordering the foundations of intra-European relations. OBOR will allow Beijing to project power in several continents with a vision towards shifting geostrategic power to China. While OBOR is often compared with the old Silk Road, the new incarnation extends Chinese presence into foreign places, unlike the Silk Road which brought goods from China to Europe.

In fact, the timing of OBOR reinforces the perception that geopolitics was a motivating factor. Chinese investment in Europe skyrocketed during negotiations for the Transatlantic Trade and Investment Partnership (TTIP) between the US and the EU. China likely saw the potential agreement as a threat to Beijing's vision of dominance in the global economy. Hoping to drive a wedge between the US and Europe and direct European economic relations away from the Atlantic towards the Eurasian landmass, OBOR took life during the TTIP negotiations. Perhaps in the final assessment, this was intended as a Chinese countermeasure to disrupt even closer transatlantic relations.

By refusing to grant China its coveted market-status at the WTO, the EU and US seem to be signaling they have lost hope that China will reform its economy or allow greater access to its markets. Meanwhile, the PRC is using the openness of western countries to make large scale investments and open new transportation routes to serve as conduits for political and normative influence. Chinese money could make Beijing attractive, not only as an economic partner, but as an ideological standard-

bearer. By exporting its domestic economic practices, especially in the EU accession countries of the “16+1” initiative, Beijing could present itself as an alternative to the liberal Western model and competitor to the US.³⁵ In short, OBOR expands competition beyond the economic, diplomatic, and military domains and into ideological competition between western free market capitalism and Chinese state-driven mercantilism.

The weaker institutions in Eastern and Southern Europe seem less likely to resist Chinese coercion through financial flows and investments. Equally, dispersion of Chinese tools to control public opinion and oppress discontent could result in a steady decline in individual freedoms. According to Freedom House’s latest report, China’s campaign in developing countries leverages these tools to appeal to autocrats.³⁶ These fears are exacerbated by infiltration of Chinese SOEs into sectors considered critical to European prosperity and security, especially in the technology, communication, and media sectors. Chinese access in areas of sensitive technologies in Europe, such as installing vulnerable 5G networks, could pose a national security threat to the US, possibly affecting transatlantic intelligence and security cooperation.

Taken together, these points of influence underline why the US NSS identifies China’s “strategic foothold” in Europe as a concern to individual European countries, the integrity of the EU as a whole, and the US. China’s ever-expanding unfair trade practices and investment in key industries, sensitive technologies, and infrastructure continue to be the most pressing challenge.³⁷ Other challenges relate to political and military misdeeds, human rights abuses, or the larger context of norms, rules, and institutions that govern the global economy.³⁸ Most of these concerns are also shared in European capitals and EU institutions, meaning the US and EU increasingly recognize common threats, share common interests, and need to pursue effective policies towards China cooperatively.

35 Yan Xuetong, “How China Can Defeat America,” *New York Times*, 21 November 2011, <https://www.nytimes.com/2011/11/21/opinion/how-china-can-defeat-America>.

36 Adrian Shahbaz, “Freedom on the Net 2018: The Rise of Digital Authoritarianism,” *Freedom House*, 2019, <https://freedomhouse.org/report/freedom-net/freedom-net-2018/rise-digital-authoritarianism>.

37 *National Security Strategy of the United States of America*, White House, December 2017, <https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905.pdf>.

38 Vice President Mike Pence, “Administration’s Policy toward China” (speech, Hudson Institute, Washington, DC, 4 October 2018), <https://www.whitehouse.gov/briefings-statements/remarks-vice-president-pence-administrations-policy-toward-china/>.

POLICY RECOMMENDATIONS SUPPORTING COMPETITION AND COOPERATION

Both the US and EU have realized strategic competition with China is now a reality. EU references to China as a “systemic competitor” represent a conscious recognition of the changing calculus in the trade-off between economic benefits and security concerns. European and US policies must converge with the objective of tracking on a mutually supportive and complimentary path. China’s rise needs to be managed by an artfully designed strategy that includes a coalition of countries that share common interests, economic power, technological progress, and, most importantly, liberal values:

- **The US and EU governments must develop a joint China strategy in keeping with the liberal standards supporting the global economy:** The US and EU must work together and maintain a high bar for global economic rules. The value of the transatlantic partnership must be revisited constantly and advertised as an alternative to less desirable options. The transatlantic economy and its contributing components drive innovation in the global economy. The US and EU have a limited window to reestablish a commitment to a rules-based international order based on liberal values or cede the field to illiberal standards set by China.

The partnership between the US and EU was built on shared commitments to open markets and cooperation on the development of principles regulating issues of global concern such as labor rights, environmental protection, food safety, and the promotion of innovation and entrepreneurship by securing intellectual property rights. Despite profound changes in the world economy, the US and EU are currently able to provide genuine leadership in the world economy. In the strategic communications realm, China is quick to promote a model of harmony, multi-polarity, non-interference, and balance.³⁹ Chinese actions paint a different story, and the West must point out their duplicity.

39 Kerry Brown, *The World According to Xi: Everything You Need to Know About the New China* (London: I.B. Taurus, 2018).

Considering the existing divisions inside the EU related to China, engagement with the US is needed to define an active role for both parties in crafting common policies towards China. The bipartisan consensus on Capitol Hill concerning China on trade, cyber-theft, and human rights should be the starting point for partnership with the EU on a joint strategy towards China. Policy-makers on both sides of the Atlantic must inform their respective constituents about the consequences if we fail to act collectively. Any strategy must include measures for dialogue with China to avoid and manage potentials for miscalculation that could result in an unintended crisis. Beijing can be expected to focus on maintaining the conditions necessary for the country's economic growth, while attempting to exploit economic, political, and technological weak spots in the EU and US. In response, policymakers should exploit the opportunity for the US and EU to show political unity and invest more in a mature relationship with common values.

- **The US, in collaboration with the EU, should increase its outreach in areas such as the Balkans, Black Sea, and Central Asia:** Engagement with non-EU countries in Europe, must be recapitalized with an emphasis on energizing democratization processes in regional states and expanding Euro-Atlantic integration. While East and Southeast European countries will realize immediate benefits from Chinese investment in infrastructure and economic development, they should not be abandoned. This would cause a shift away from liberal values, market rules, procurement standards, justice, and rule of law. The EU and US should use its strong leverage in the Balkans as the main donors, while enhancing and integrating strategic communication to ensure the public understands the purpose and benefit of this assistance.
- **The US Department of Defense regional centers must focus more on evidence-based research and policy recommendations for the stakeholders:** The George C. Marshall European Center for Security Studies (GCMC), as a German-American partnership, should serve as a venue for promoting the perspective of the German government, which has been vocal in raising security concerns about the increased influence of China, not only in the EU, but in the broader European con-

continent. The GCMC should be required to extend its research to address the broader Eurasia context of Chinese activities and compare findings with the other regional centers of the US Department of Defense.