Member State Interests and the EU's Strategic Partners: The Political Economy of Foreign Relations

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Abstract

Building on earlier work by the authors (Guay and Smith 2017), this paper examines the relationship between the European Union (EU) and emerging powers in the global political economy, with particular reference to China . It seeks to understand why, given the divergent foreign economic policy interests of member states, the EU has managed to forge "strategic partnerships" with emerging powers, and why the operation of those partnerships is constrained by 'domestic' influences. While the EU's closest relations during the first 60 years of its existence were with the United States (US), changes in the post-Cold War era have created an environment in which countries outside the North Atlantic region can rise in global prominence. The so-called BASIC countries (Brazil, South Africa, India, and China) are the most well-known emerging powers. However, while the nature of the EU's past relations with the US was based on mutual and strong economic, political, and security interests, the EU's current relations with BASIC countries vary across each of these dimensions. The importance of these interests varies among member states, and the paper explores the case of China in order to expose some of the manifestations and implications of this variation. For example, foreign direct investment (FDI) by Chinese companies is generally welcome in EU member states whose economies are struggling, but opposed in countries where FDI is viewed as a competitive threat. Likewise, certain member states would prefer closer EU relations with India to counter Chinese political and military power, while others seek to strengthen economic ties with Beijing and its companies. With this context, the paper will draw on the complex interdependence literature to compare the degree of divergence among member state foreign economic policy interests with respect to BASIC countries.

INTRODUCTION

The European Union (EU) has forged strategic partnerships with ten countries: Brazil, Canada, China, India, Japan, Mexico, South Africa, South Korea, Russia and the US. Given the global influence of the EU and the BASICs, why have these special relationships largely failed to produce signature accomplishments? We argue that EU member states have national political and economic interests that are too divergent for the EU to create a unified position toward the BASICs. In other words, bilateral relations between member states and the BASICs are viewed as more valuable by national governments than the benefits derived from a common EU policy. In no case is this more true than that of China: in its most recent China strategy paper, published in March 2019, the European Commission said that China "is simultaneously a cooperation partner with whom the EU has closely aligned objectives, a negotiating partner, with whom the EU needs to find a balance of interests, an economic competitor in pursuit of technological leadership, and a systemic rival promoting alternative models of governance" (European Commission, 2019a). At the same time, differences among EU member states in relation to the impact of Chinese foreign direct investment (FDI), technology such as that provided by Huawei, and the Belt and Road Initiative have demonstrated that the hybrid nature of the overall relationship between the EU and China extends beyond Brussels into the national political economies of all 28 EU members (Godement and Vasselier 2017). This means that the EU's objective of creating and sustaining a 'strategic partnership' entails not only management of external action but also the balancing of competing member state interests in an interdependent and multi-layered European and global political economy. In particular, the translation of strategic declarations and frameworks into operational programmes, and their adaptation to changes in key strategic partnerships, is a key aspect of a successful 'strategic diplomacy' entailing coordination at several levels and the willingness of member states to dedciate resources to action at the EU level (Smith 2016).

This paper builds on earlier work by the two authors (Guay and Smith 2017), which was aimed at establishing a broad framework for consideration of such issues, and which identified a number of areas of variation and unevenness in the ‘domestic political economy’ of the EU’s strategic partnerships with emerging economies. In the first part of the paper, the framework is revisited and extended to form the basis for a more in-depth study of EU-China relations. The second part of the paper undertakes a case study of the EU-China relationship with particular reference to the variations between individual member states or groups of member states, focusing on a number of key areas of contention and variation. The final part of the paper evaluates the initial evidence and draws conclusions based on the implications for EU policy of the differentiation and variations exposed. This is very much work in progress, and comments and suggestions for its further development are very welcome.

A Framework for analysis

Shifting patterns of economic activity and economic power have been a central part not only of the broad context facing the EU in its external action, but also of the specific areas in which challengers have emerged and challenges have occurred (Smith 2013). The impact of globalisation has generated intense interconnectedness, but also severe unevenness and insecurity. There also has been growing awareness of a global power shift, from the established economic powers of Europe and North America to emerging powers in Asia and Latin America; in turn, this shift has put pressure on established institutions and rules, given that emerging powers do not necessarily or completely share the assumptions of a ‘western’ liberal economic order (Alcaro et al. [2016]; Kupchan [2012]; Nye [2017]). There is here a double challenge: first, from the consequences of western forms of globalisation, and second, from the rise of non-western responses to globalisation and to the institutions and rules created by the established powers.

One way of approaching the analysis of these challenges is to adapt some of the key elements of the ‘complex interdependence’ framework developed by Keohane and Nye and since applied in a wide range of cases (Keohane and Nye 1977 and many others). In our 2017 paper, we argued that two sets of analytical demands are pertinent in assessing the EU's responses to the challenge posed by emerging powers: one that emerges from the GPE as a whole and the roles of emerging powers within it, and a second that emerges from the nature and make-up of the EU, and its capacity to respond in a creative, coordinated and effective way to the challenges posed externally. We proposed that one way of addressing these material and analytical challenges is to mobilise a number of analytical tools in three areas. First, in order to establish the *significance/salience* of a range of relationships between the EU and emerging powers in the GPE, we adopted a number of criteria. We saw four elements as important to establishing significance/salience. The first is *scope* – the breadth and depth of the relationship. The second is *scale* – the sheer size of the relationship, and its salience in EU external relations more generally. The third is *intensity* – the extent to which a relationship is persistently present rather than sporadically of concern to the EU. And the fourth element is *centrality* - the extent to which the relationship is concentrated in key areas of EU concern. We took certain material measures as indicative of these qualities – the most important being levels of trade, investment and other commercial activities, alongside which we could look at the infrastructure of relations in institutional terms (for example, sectoral and other dialogues, diplomatic encounters, key documents and agreements). The aim was to establish a broad measure of significance/salience – to see how large a specific relationship looms in the EU policy process, and conversely how large the EU element is in the perceptions and processes of the relevant partner (since this would give an indication of concerns and responsiveness on the part of the partner, and thus complement the EU dimension by drawing attention to mutual dependence).

Second, in order to assess the *sensitivity/vulnerability* of the EU in relationships with emerging powers, we drew upon the ideas embodied in the 'complex interdependence' framework first set out by Keohane and Nye in the 1970s (Keohane and Nye 1977). Keohane and Nye argued that the costs of interdependence (and the capacity to adjust to them) could be seen in two ways. Sensitivity interdependence implies that the effects of change in relationships between interdependent actors are transmitted rapidly and can precipitate policy change in order to defray or control the costs. Vulnerability interdependence implies that when confronted with the costs of interdependence, some actors are more vulnerable than others and have fewer alternative responses with which to defray or control the costs. Whilst sensitivity interdependence allows for a range of policy choices by interdependent actors, vulnerability interdependence implies a severely reduced level of autonomy or choice for the more vulnerable actor. In real-world situations the likelihood is a mixture of such components.

Third, we argued that the combination of significance/salience and sensitivity/vulnerability provides us with an indication of the extent to which the EU can respond by developing and applying an effective *strategy* in its relations with emerging powers. The notion of strategy implies an ability to bring interests, commitments and resources into an effective balance, and to apply relevant instruments in pursuit of policy outcomes. In Keohane and Nye's terms, such outcomes can be pursued in conditions of complex interdependence through linkage strategies, agenda setting, the shaping of transnational and transgovernmental relations, and the use of international organisations as sources of information and arenas for coalition formation, negotiation and the management of linkages. Whilst we must be careful in applying such ideas to the relations between the EU and emerging powers, where the existence of 'complex interdependence' might be contested, it is clear that the general focus on commercial issues, the lack of direct possibilities of the use of military force, and the growing range of transnational and transgovernmental contacts between the EU and its key emerging-power partners provide at least some basis for pursuing this line of argument. In addition, studies of EU strategic partnerships and of 'strategic diplomacy' in the EU provide a firm basis for focusing on the extent to which the EU has been able to muster coordinated and effective action in relation to a range of emerging powers (Renard and Biscop 2012; Smith 2013, 2016).

Further insights are provided by the ideas of 'competitive interdependence' (Sbragia 2010). According to such arguments, the need for the EU to act strategically as a 'market power' in a world of 'market powers' has implications not only for the aims pursued by the EU *vis-à-vis* key emerging powers, but also for the instruments applied in a GPE characterised by multilateral, regional and bilateral forms of negotiation and institutionalisation (Damro 2012).

This set of arguments gave us the building blocks of what appeared to be a set of causal propositions in relation to the EU's relations with emerging powers. First, that the *significance/salience* of a specific emerging power for the EU (and of the EU for that emerging power) is a key element in creating the need for EU attention to relations with that power, in establishing the scope of the challenge faced by the EU and in shaping the EU's range of responses to that emerging power. Second, that the degree of *sensitivity/vulnerability* experienced or perceived by the EU in its relations with an emerging power, when combined with the significance/salience of that emerging power, will condition the ability of the EU to defray or manage the costs of the relationship. In particular, it will affect the extent to which the EU has choices about what policy instruments to use in the attempt to manage costs and create positive returns (financial and other) from the relationship. Third, that the combined effects of significance/salience and sensitivity/vulnerability will influence the ability of the EU to develop an effective *strategy* towards a given emerging power, and condition its available strategic responses (linkage, agenda-setting, management of transnational/transgovernmental relations, use of international organisations).

The current paper, however, takes this set of insights further, by extending the analysis to the variation of member state interests and preferences within the EU. This emerged as one of the areas for future exploration uncovered by the 2017 paper, and here we attempt to extend the analysis to accommodate the variety of member state positions and responses in relation to the growing Chinese presence in the political economy of the Union. In doing so, we take account of the work undertaken by Alasdair Young and John Peterson on what they term '21st century trade politics' (Young and Peterson 2014; see also Young and Peterson 2006, Young 2016) – a form of trade politics that engages and mobilises a series of domestic and transnational interests, politicising the process in ways that traditional technocratic trade policy-making was designed to avoid. Whilst Young and Peterson identify a number of trade politics ‘sub-systems’ that can nurture competitive or cooperative processes under the broad umbrella of EU trade policy-making, here we are concerned with the 28 key national sub-systems represented by the EU member states. On the basis of this concern, it is possible to adapt the three central propositions outlined above, as follows.

First, whilst the *significance/salience* of a specific emerging power for the EU (and of the EU for that emerging power) is a key element in creating the need for EU attention to relations with that power, in establishing the scope of the challenge faced by the EU and in shaping the EU’s range of responses to that emerging power, the salience of the power concerned will vary across EU member states in ways that affect the Union’s capacity to develop a coordinated strategic partnership at the operational level.

Second, the degree of *sensitivity/vulnerability* experienced or perceived by the EU in its relations with an emerging power, when combined with the significance/salience of that emerging power, will condition the ability of the EU to defray or manage the costs of the relationship, but that this is also subject to variations in sensitivity/vulnerability among EU member states . These variations will affect the extent to which the EU has choices about what policy instruments to use in the attempt to manage costs and create positive returns (financial and other) from the relationship, and they will affect the inclination of individual member states to adhere at the operational level to EU policy prescriptions in light of the potential leverage available to the ‘external’ emerging power.

Third, that the combined effects of significance/salience and sensitivity/vulnerability at the EU and the member state level will influence the ability of the EU to develop an effective *strategy* towards a given emerging power, and condition its available strategic responses (linkage, agenda-setting, management of transnational/transgovernmental relations, use of international organisations). Key to this set of influences will be the inclination of member states to pursue bilateral or minilateral strategies in relation to a given emerging power.

In order to test this modified set of propositions further, we now present a case study of EU and member state relations with China. In our 2017 paper, we concluded on the basis of a brief probe as follows. First, it was clear that EU-China relations provided a clear example not only of the significance and salience of their relations in the GPE, but also of the dynamism and evolutionary momentum that were key to our argument. Second, it was clear that sensitivity and vulnerability in relation to the political and economic costs of the changing relationship had grown, but that they were asymmetrically distributed. In other words, the threats and opportunities emanating from China's changing place in the EU's external economic policy, and the potential costs of ignoring them, were different for different regions of the EU, different sectors of industry and commerce, and different EU member states. Third, in terms of EU strategy, there had been a significant gap between declarations of strategic purpose and the development of day-to-day working relationships between the two partners, and there had been moves at the EU level to recognise and institutionalise 'the management of difference'. But these did not in themselves remove the challenge presented by a combination of change in China itself, by the potential for fragmentation within the EU and by the changing nature of the GPE more generally. Here we are particularly concerned with 'the potential for fragmentation within the EU' and specifically with the responses of EU member states to China's presence and actions in a number of key areas of the relationship.

POLITICAL ECONOMY IMPACT OF CHINA IN EUROPE

This section of the paper reviews key areas where the economic influence of China translates into political influence. The list is not exhaustive, but suggests the range of economic activities that China, including its government, companies, and citizens, engages in that underlines the variation in interests and positions among member states and thus potentially increases Chinese leverage over member states.

Foreign Investment

Table 1 shows the amount of foreign direct investment (FDI) originating in BASIC countries and invested in Europe and, for comparison purposes, the United States (US) in

2017. According to the Organization for Economic Cooperation and Development (OECD), Chinese companies have invested almost three times as much in the EU as in the US. Even Indian and South African firms have higher levels of FDI in Europe than in the US. This represents a trend in recent years, whereby emerging market multinational corporations have started to become significant investors in Western countries. For example, Chinese FDI accounts for 10 percent of all foreign investment in Finland. Table 1 almost certainly under-estimates Chinese FDI in Europe for three reasons. Data for four countries (including France and Germany) are based on 2016 statistics, and the OECD does not have FDI data for five EU members. Most importantly, as will be discussed further below, Chinese investment in Europe has accelerated since 2017.

In trade, too, the EU's global relations are shifting (European Commission, 2019d). While the US was the EU's primary trade partner in 2018, with €673 billion criss-crossing the Atlantic, China was second at €605 billion. India was ninth (€92 billion), Brazil was twelfth (€65 billion), and South Africa was eighteenth (€48 billion) - just ahead of Australia. Based on FDI and trade statistics, China is the most influential of the BASIC by far, not just in Europe, but globally as well. Yet, it may be just a harbinger of the economic power that emerging market countries more broadly will wield in the coming decades.

Table 1: Foreign direct investment by BASIC firms in Europe, US, and world (2017, billions US dollars)

	Brazil	China***	India	South Africa
Austria	4.3	4.1	0.2	0
Belgium	-3.0	5.7	0.2	C*
Finland	0	9.0	C*	C*
France**	N/A	10.5	0.3	2.6
Germany**	1.2	6.6	3.0	1.4
Italy	0.3	6.2	0.5	0.1
Luxembourg	6.8	96.6	-0.4	0.9
Netherlands	-18.9	14.7	0.4	C*
Portugal	3.3	5.7	0.0	0.2
Spain	6.7	2.4	C*	C*
Sweden	0.2	9.5	0.1	0.0
UK	C*	30.7	10.8	3.0
Other EU	-0.1	7.6	2.0	0
Total EU****	0.8	209.3	17.1	8.2
United States	42.8	73.1	13.1	5.1

*Confidential data

**2016 data for France, Germany, Hungary, and Slovakia

***China plus Hong Kong

****Does not include Bulgaria, Croatia, Cyprus, Malta, Romania

Source: OECD. (2019) *International Direct Investment Statistics 2018*, OECD Publishing, Paris, (https://doi.org/10.1787/bb55ccaf-en)

There has been a corresponding shift in the composition of the world's largest companies. Table 2 illustrates how the Global Fortune 500 rankings changed between 2005 and 2018. Over this 13 year period, 68 European multinational corporations dropped off the list, along with 50 US companies and 29 from Japan. During the same time, the number of Chinese companies increased just 16 to 111. Firms from Brazil, India, Russia, and other emerging market countries more than doubled from 17 to 35. As the global economy continues to shift from west to east, technology diffuses, and a global middle class emerges, firms from the BASIC countries and other emerging markets will most certainly continue to increase in number.

Table 2: Global Fortune 500 Companies and Change in Rankings by Country of Origin

	2005	2018
Europe	174	136
United States	176	126
Japan	81	52
Other OECD	36	40
China	16	111
Brazil, India, Russia	11	18
Other Emerging Market	6	17
Total	500	500

Sources: http://fortune.com/global500/2005/ and http://fortune.com/global500/

A few examples of Chinese investment projects will emphasize this paper's argument that Beijing's strategy in Europe is to sow internal divisions and curry political influence and support. After years of austerity during its "Euro crisis," Greece's public finances were strained and the economy was struggling. China's initial foray into Greece consisted of buying toxic government bonds. As the country slowly emerged from a financial crisis, and seeking foreign investment, Greece turned to China. In 2016, Cosco, one of China's state-owned enterprises (SOEs), purchased a controlling (67 percent) stake in the Greek port Piraeus (near Athens) for €385 million (Hoskin and Kasapi, 2017). Now the Mediterranean's busiest port, Piraeus is strategically important, since it is the first major port on the Mediterranean Sea side of the Suez Canal and is deep enough for the largest container ships. Closer Greece-China economic ties spill over into "softer" relationships. Athens International Airport is aiming to be more China-friendly by offering Alipay (an on-line platform of China's Alibaba Group) for mobile payments, announcements and signs in the Chinese language, customized food and beverage outlook to accommodate the tastes of Chinese business travelers and tourists, and even Chinese New Year celebrations (Pantziou, 2017).

By some measures, China's efforts have paid off (Horowitz and Alderman, 2017). In summer 2016, Greece helped scuttle efforts by the EU to issue a unified statement against Chinese aggression in the South China Sea. A year later, and shortly after Prime Minster Alexis Tsipras attendedt a summit in Beijing where he signed billions of Euros of investment memorandums with Chinese companies, Greece stopped the EU from condemning China's human rights record, and opposed tighter screening of Chinese foreign direct investment (FDI) in Europe. Hungary, which is expecting a multi-billion Euros Chinese investment in its railway, also blocked the EU statement on the South China Sea.

However, there are signs that at least some European countries are having reservations about openness to FDI. A UK policy document released in July 2018 aims to enhance the government's powers to block foreign purchases of security-sensitive assets (Pickard, Massoudi, and Mitchell, 2018). Concerns have arisen mainly over a handful of Chinese and Russian acquisitions to date, and expectations that firms from those countries will continue to seek security-related acquisitions in the coming years in areas ranging from energy to sensitive technologies under existing rules. Tightening the vetting procedure by, for example, eliminating thresholds for government scrutiny and applying reviews not just to takeovers, but to asset sales and intellectual property as well, puts the UK more in line with France and Germany. In 2017, Germany tightened its inward investment rules that, among other things, permitted the government to block acquisitions of 25 percent or more of shares in German companies operating in "critical infrastructure." The new policy was widely viewed as a response to Chinese attempts at acquiring German technology.

In summer 2017, German Chancellor Angela Merkel, who had become increasingly wary of Chinese SOEs, tightened rules to limit takeovers of the country's strategic assets

(Horowitz and Ackerman, 2017). She justified the move as a means to limit China's ability to divide EU members and prevent the bloc from speaking with one voice on human rights and other issues that ran counter to Chinese interests.

At the EU level, there are growing concerns that a unified approach to the screening of inward foreign investment is necessary. France and Germany have proposed a joint initiative to introduce more rigorous screening of foreign takeovers of EU companies, especially those with suspected state backing, and French president Emmanuel Macron has been a strong advocate for the EU to introduce a screening system (Pickard, Massoudi, and Mitchell, 2018). In March 2019, Macron claimed that, "China plays on our divisions….The period of European naïveté is over" (Erlanger, 2019).

Finally, in February 2019, the European Parliament voted overwhelmingly (500 in favor, 49 opposed, 56 abstaining) in favor of a proposal that empowers the European Commission to investigate foreign investments in critical sectors and give its opinion on whether they threaten European interests (Reuters, 2019). Backers of the policy, which will take effect in October 2020, argue the objective is to give further scrutiny to investments that are more political than economic in nature. Member states will not be required to screen investments in critical industries (including aerospace, health, nanotechnology, media, electric batteries, and food), but they must submit an annual report to the Commission. Significantly, the Commission will not be empowered to block foreign investments. It can only give its opinion on whether vital infrastructure might be compromised or valuable technologies could fall into foreign hands. Thus, the Commission has no enforcement mechanism. This is a weaker vetting process than, for example, the Committee on Foreign Investment in the United States (CFIUS) – an inter-agency group of the federal government that can block foreign investments outright. The new EU policy reflects a compromise between those member states that are increasingly worried about foreign investment originating in countries with a strong tradition of state capitalism, and those members who stand to benefit at least in the short term from such activities.

This new policy on foreign investment faces further restrictions when international business conflicts with national security concerns, as the current controversies over Huawei illustrate. Out of concerns that Huawei telecoms equipment may permit the Chinese government to conduct espionage, the US is pressuring its allies to avoid the company's products, including those related to new 5G networks (*Economist*, 2019b). The UK appears unconvinced, having thoroughly scrutinized the company's equipment in a government cybersecurity lab. However, internal divisions in the Cabinet over the primacy of economic and national security considerations, resulted in the firing of the UK defense secretary in May 2019, who harbored reservations about Huawei's role (BBC, 2019). As will be discussed in more detail below, the UK will need foreign investors post-Brexit, and following a US hard line on Huawei carries potential economic risks. Germany is similarly skeptical and will start its own testing, as is Italy, which is probably more concerned about how such an action would affect its economic relationship with China. Poland arrested a Chinese Huawei employee and a Polish citizen on espionage charges in January 2019. But fearing it might be ostracized by China, is seeking EU unity on the matter.

Tourism

Tourism is an important component of Europe's economy. According to the European Parliament (2018), a narrow definition of the sector (i.e., traditional providers of holidays and tourism services) consists of 2.3 million businesses (mainly small and medium-sized enterprises, or SMEs), and employs 12.3 million people. In 2018, the travel and tourism sector directly contributed 3.9 percent to EU GDP, and 5.1 percent of the labor force. Including tourism's links to related economic sectors, the total rises to 10.3 percent of GDP and 11.7 percent of total employment (or 27.3 million workers).

The composition of tourists in Europe is changing. In 2017, Chinese travelers made nearly 150 million trips abroad, and spent more (over $250 billion) than any other country's tourists (*Economist*, 2019a). According to the World Tourism Organization (2018), China ranked fourth as a source market for tourists to Europe, behind only the United States, Switzerland, and Russia measured by nights spent at EU accommodation establishments in 2016. China is the fastest growing source market, having doubled the number of nights spent in just four years to 25 million in 2016 - an annual growth rate of 19 percent. Chinese tourists spent €236 billion outside of China in 2016 - which leads in global outbound travel.[1]

Given these global trends, Chinese companies are looking to expand their reach to provide the tourism infrastructure necessary to accommodate their fellow citizens. Fosun International Holdings, for example, is spending €7.9 billion in a consortium with Greek and Abu Dhabi investors to transform a former airport outside Athens into a posh playground three times the size of Monaco for wealthy tourists (Horowitz and Alderman, 2017; Inman, 2017). The project is part of a plan to bring over 1.5 million Chinese tourists to Greece over the next five years. In his support of the project, Prime Minister Tsipras has eliminated regulatory hurdles, removed two refugee camps, and ignored concerns that the project might permanently destroy archeological sites.

Recognizing the growing impact of Chinese tourism, China and the EU announced in 2016 that 2018 would be the "EU-China Tourism Year" (European Commission, 2016). The effort aims to capitalize on this growth by, for example, expanding flights between Europe and China, increasing the number of Chinese tourists during the off-season and to lesser-known destinations in Europe, campaigns advertising trans-Europe itineraries, and strategies for welcoming Chinese tourists and enhancing cultural sensitivities by, for example, illuminating landmarks in red (European Travel Commission, 2019).

Thus, Chinese tourists have thus become a significant economic force. Even the Chinese Communist Party newspaper admits that "tourism diplomacy" is an "important and indispensable" component of the country's foreign policy (*Economist*, 2019a). This is in large part due to Beijing's ability to shape public opinion toward a country, or the cues that travel companies take from government pronouncements. After Turkey criticized the treatment of Muslim Uighurs in the western part of China, it found itself included on a safety alert to Chinese travelers. Canada experienced the same treatment after arresting a

[1] Tourists from Hong Kong accounted for an additional €22 billion.

senior Huawei executive. European countries with a high dependence on Chinese tourists may be less likely to take actions that run contrary to Beijing’s interests.

Visas

Another issue that separates EU member states is granting visas to non-EU residents who make significant investments in those countries. Greece, for example, grants these so-called “golden visas” for foreigners spending a minimum of €250,000 on a home (Alderman, 2019). Portugal and Spain have used similar schemes for years to encourage foreign investment as a means for economic development. The Greek government began offering golden visas in 2013, which has attracted investors from Russia, Turkey, and the Middle East. Between 2013-18, the initiative attracted about 10,000 investors from China (comprising more than 40 percent of the total), Russia, and other non-EU countries, and injected €1.5 billion into the Greek real estate market. The country has become a top destination for China’s growing middle class seeking to withdraw money from the mainland, many of whom find comfort in knowing that Chinese SOEs have a large presence in Greece. Cosco, for example, owns most of Greece’s Piraeus port. While there is a significant downside to such investment, particularly in the rise of property values that makes houses and rentals more difficult to afford for working class Greeks, the funds have provided support for the country’s recent economic growth. This is especially true in the tourism industry, where housing properties are increasingly seen as catering to travelers rather than to locals.

Greece is not alone in offering golden visas. Twenty countries (all EU members except Austria, Denmark, Finland, Germany, Slovenia, and Sweden) offer residency rights in exchange for certain levels of investment. Currently, three EU members (Bulgaria, Cyprus, and Malta) go a step further in selling “golden passports” without any obligation of physical residence. Critics, such as the non-governmental organization (NGO) Global Witness and Transparency International, contend that golden visas condone corruption, since it facilitates fast-track citizenship and/or residency to high-risk business people and oligarchs (Global Witness, 2018).

There is no EU policy governing golden visas and passports. But in light of increasing concerns over the opacity of the administration process in various countries, and concerns that they facilitate money laundering, tax evasion, corruption, and possible security threats, the European Commission presented a comprehensive report on the subject in January 2019 (European Commission, 2019b). With respect to golden passports, the Commission argues:

> These schemes are of common EU interest since every person that acquires the nationality of a Member State will simultaneously acquire Union citizenship. The decision by one Member State to grant citizenship in return for investment, automatically gives rights in relation to other Member States, in particular free movement and access to the EU internal market to exercise economic activities as well as a right to vote and be elected in European and local elections. In practice, these schemes are often advertised as a means of acquiring Union citizenship, together with all the rights and privileges associated with it. (European Commission, 2019b)

The Commission's concerns for golden visas are similar, since they permit a third country national the right to travel freely in the Schengen area, and the EU does not have authority to regulate them. However, the EU has been unwilling to take any more authoritative steps than to set up a group of experts to evaluate the risks involved with these schemes, develop a common set of security checks, and address aspects of transparency (European Commission, 2019c).

Given that most of the individuals seeking golden visas and passports are nationals of BASIC and other emerging market countries, including China, it seems that the vast majority of EU member countries are unwilling to alienate bilateral relationships, and forego inward monetary flows, by supporting EU policies or regulations that might interfere with and reduce the number of visas and passports granted.

Brexit

One of the implications of the UK's likely withdrawal from the EU is the necessity of forging bilateral trade deals with major countries and regional blocs. Prime Minister Theresa May, during a January 2018 trip to Beijing with 50 British business leaders, proclaimed the two countries had entered a "golden era" - a phrase used frequently by UK leaders to refer to the bilateral relationship since the June 2016 referendum. May said the UK was considering, "how we can build further on that golden era and on the global strategic partnership that we have been working on between the UK and China" (*Deutsche Welle*, 2019). But the UK's relationship with China may depend on whether Brexit is more hard or soft. A harder Brexit would make the UK less attractive for Chinese investment, since it would likely come without access to the Single Market. However, a harder Brexit would make the UK even more dependent on investment from China and other emerging markets, thereby reducing any negotiating leverage that London or UK firms might have on trade, as well as other areas like human rights on the mainland and threats to political rights in Hong Kong.

While the UK government seeks to strengthen relations with China, the European Commission has expressed reservations. Budget Commissioner Gunther Oettinger suggested in April 2019 that, "The biggest winner [of Brexit] is China. The Chinese can advance their strategy without disruption and leap everywhere in the world at the opportunities that Europe fails to seize because it's so preoccupied with itself" (Gehrke, 2019). This is problematic because there is an opportunity for the EU and China to strengthen ties, given the tenuous relationship that both have with the US over trade, economic policy, security, and the environment.

There are likely other winners from Brexit besides China. According to the United Nations Conference on Trade and Development (UNCTAD), developing countries could see significant trade gains from a 'hard Brexit' - that is, if the UK leaves the EU without terms governing tariffs (UNCTAD, 2019). China is estimated to export $10.2 billion more to the UK - an increase of 17 percent. The US would be the second-biggest winner, followed by Japan, Thailand, South Africa ($3.0 billion, or 39 percent), India ($1.3 billion, or 14 percent), Brazil ($1.1 billion, or 35 percent), and Russia. The gains would result from lower UK tariffs on products than what the EU currently has in place, and the fact that many competitors would be taxed at the same rate. Unless in the unlikely event that the UK remains in a customs union with the EU, which would maintain current tariff levels, any post-Brexit trade agreement with the EU would provide greater market access for BASIC countries seeking exports to the UK.

The Belt and Road Initiative and the 16+1 relationship

Of the BASIC countries, China has done most this century to expand its global political and economic relations. Beijing's efforts are symbolized in its Belt and Road Initiative (BRI) - an attempt to resurrect the centuries-old Silk Road that traversed central Asia and the Middle East, and facilitated economic and cultural exchange between China, Europe, and lands in between. The 21st century variation goes beyond economics and culture to also include closer political cooperation. The BRI's geography extends to Southeast Asia, Africa, and even to Latin America, encompassing more than 70 countries with the value of all projects estimated to be $3.67 trillion (Blanchard, 2019). A key component of BRI is funding infrastructure projects in participant countries as an economic development strategy. But it also benefits Chinese banks (who finance the deals) and companies (who often do much of the actual construction), as well as Chinese exporters. There also is an expectation that recipient countries will provide political support to Beijing on a range of international issues. It is becoming increasingly evident that China is seeking to expand BRI to Europe as well.

In March 2019, Italy became the first European country to agree to participate in BRI. Twenty-nine deals totaling €2.5 billion, along with the BRI memorandum of intent, were signed by Deputy Prime Minister Luigi Di Maio and President Xi Jinping's in Rome (BBC, 2019a). The deals gave Italian firms greater access to the Chinese market and China, among other accommodations, will be involved in developing the port of Genoa, and its Communications and Construction Company was granted access to the port of

Trieste to enable links to markets in Central and Eastern Europe. With Italy entering recession in late 2018 and lacking the funds to improve dated roads, railways, ports, refineries, and other infrastructure, Chinese investment will be most welcome.

Until Italy joined BRI, EU officials worried mainly about peripheral and financially desperate countries like Greece, Portugal, and Spain as being most susceptible to Chinese influence and most likely to undermine Union cohesiveness in global affairs (Horowitz and Alderman, 2017). Members further east and countries in the Balkans were also of concern, given that region's geographic advantages. A Chinese company, for example, is building a €280 million bridge on Croatia's Adriatic coast, though the project is funded by the EU (Euractiv, 2019a). Chinese companies have acquired bankrupt steel mills and copper mines in Serbia, and made them profitable, winning admiration from local communities and Belgrade (Euractiv, 2019b).

In April 2019 at a summit meeting in Brussels, EU and China leaders met to discuss areas of cooperation. China agreed to open its market more to European companies and limit forced technology transfers - long-standing demands by EU officials that are unlikely to be fully achieved by the stated date of end of 2020. But the next day, a "16 + 1" cooperation meeting was held in Dubrovnik consisting of 11 central and eastern European states (five of which use the Euro), five western Balkan countries (four of whom have formally applied to join the EU), and China (Erlanger, 2019; Euractiv, 2019a). Greece is exploring joining the group. The region, as previously mentioned, is geographically important to China's economic strategy in Europe, and China formally initiated its efforts in "16 + 1" in 2012. Between 2007 and 2017 Beijing announced €12 billion in loans for construction projects in the 16 countries, with one-third of this amount going to Serbia, followed by Bosnia (21 percent) and Montenegro (seven percent), according to the European Investment Bank (2018). Although not all of these funds have been disbursed, according to the International Monetary Fund (IMF), China is financing at least €6.2 billion of projects, mainly roads and energy, in the Western Balkans (IMF, 2018). With a GDP per capita less than 75 percent of the EU average, the Balkans are eager to accept any foreign funding, regardless of source. Also, the industrial profile of eastern and southeastern Europe differs from western and northern Europe, in that they are in general less technologically advanced and are home to fewer global companies. Thus, whereas companies and investments from China may be viewed as a threat in more economically developed EU members, they are welcomed in the east and southeast where there is less concern about competition.

However, EU Enlargement Commissioner Johannes Hahn raised “concerns over the socioeconomic and financial effects some of China’s investments can have” (Euroactiv 2019b). Montenegro’s public debt, for example, increased to more than 70 percent of GDP after borrowing €809 million from China’s Export-Import bank to build a highway. Such “debt-trap” diplomacy, where financially-strapped countries hand over assets to Chinese banks and SOEs, has already claimed other countries, including Sri Lanka, Djibouti, and Mongolia (*Economist*, 2018). More broadly, there are concerns that investments sponsored by foreign governments, particularly China, come with little or no consideration for EU values like transparency, press freedom, limitations on state aid, or environmental impact. Chinese funding of coal-fired power plants run contrary to EU goals of reducing carbon emissions.

European divisions over China’s BRI are growing. Currently, Bulgaria, Greece, Hungary, Italy, Poland and Portugal have individual agreements with China to be a part of the BRI. Internal EU divisions were further highlighted in April 2019 at a BRI summit in Beijing. The 36 heads of state or government who attended the summit included leaders from Austria, Cyprus, Czech Republic, Hungary, Italy, and Portugal (Tiezzi, 2019). In response, German Foreign Minister Peter Altmaier urged the EU to join BRI as a bloc, rather than as individual countries, so as leverage the bloc’s negotiating position. But officials dismissed this idea, leaving it up to member states to join individually (Valero, 2019). It is clear that Europe’s relations with China appear to be a classic “prisoners’ dilemma” whereby the gains from individual defections are more tangible and immediate than any greater returns achieved through cooperation.

CONCLUSIONS

Based on the issues and examples discussed above, there appears to be a strong case that the national interests of EU member states are becoming so increasingly disparate, that it is hampering the EU's ability to speak with one voice in global affairs, particularly on issues related to China and other emerging market countries. The Chinese example is clearly the most analytically relevant given its presence in the EU's political economy and thus its potential leverage over individual member states, but in principle a number of the conclusions noted here might be applied to other BASIC countries.

Given current global geopolitical dynamics, the EU has few cards to play in its attempt to appear as a unified global actor. The US historically has been a natural ally for the EU on a wide range of global issues. But under the Donald Trump administration, the US and Europe have moved further apart on trade (with the imposition of tariffs and threats of more to come), the environment (US withdrawal from the Paris climate accord), security (US demands for greater levels of European defense spending), and faith in the liberal world order buttressed by regimes and international organizations (US skepticism of NATO, trade agreements like TTIP, Iran nuclear deal, and UN bodies). Short of waiting for a change in US leadership following the 2020 or 2024 elections, the EU must look elsewhere. Other OECD countries could provide some support, but most either lack global clout or are themselves (like Australia, Japan, and South Korea) gradually falling within the economic sphere of influence of BASICs, especially China. Even Brazil, India, and South Africa, as well as other emerging market countries, are finding links with China too tempting to resist.

Despite the concerns of rising populist parties across many of the world's democracies, one relevant feature here is how economic nationalism is employed as an electoral strategy. Leaders who came to power, in part, by promising to reclaim companies and national assets from foreign (mainly other European and US) companies, will have a hard time explaining why such national treasures were allowed to pass into the hands of SOEs domiciled in China. Perhaps then it will become easier for the EU to find common ground among its members to present a unified and more assertive front against the growing economic threats posed by Beijing. The EU does not have a trade or investment agreement with any of these four countries, so progress in this area would be a good test of whether the bloc can achieve unity by putting common interests ahead of national ones.

In terms of the propositions advanced earlier in the paper, it is possible to draw some preliminary conclusions. Whilst the issue of variation in EU member state attitudes towards China is not a new one (cf Fox and Godement 2009), and attention to the new challenges in EU-China relations has grown (cf Godement and Vasselier 2017), the propositions enable us to gain analytical leverage on the issues it has created. First, the continuing and growing penetration of the EU's political economy by China over the past decade has underlined its salience not only to the Union as a whole but also to individual member states, and it is plausible to conclude that this growing salience has produced differentiated outcomes, for example in areas such as FDI and the impact of communications technologies. Second, one of the factors that is key to the shaping of differentiated outcomes is the diffiential sensitivity and vulnerability of member states to Chinese overtures, and we have seen that this can vary from the conspicuously defensive to the open and welcoming (cf Germany and the UK or Italy, and eastern European member states). Finally, we have seen that whilst the EU has been able discursively to generate and reproduce a coordinated strategy towards China, that strategy is subject at the operational level to significant variations in the extent to which it shapes member state responses to China. In a way, the 2019 Commission Communication, with its multiple images of China (cooperating partner, negotiating partner, economic competitor and systemic rival) shows recognition of this differentiation, but the question is, how might that translate into a policy framework that can contain the differentiated responses on EU member states as well as the 'high diplomacy' of strategic partnership?

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