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## **Europe between China and the United States: Geoeconomic Implications of the Belt and Road Initiative**

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*Submitted 21/10/19, 1st revision 19/11/19, 2nd revision 29/12/19, accepted 20/01/20*

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**Abstract:**

**Purpose:** The research aims to examine the scope, nature and strength of the EU's relations with China and the United States, under new circumstances created by the development of the Belt and Road Initiative.

**Design/Methodology/Approach:** In pursuance of the goals, three main research fields were identified. The first part of the research covers the EU-China relationship with special regard to the Belt and Road Initiative development. The second part concentrates on the transatlantic relationship under the specific terms of Sino-American competition. The third section is devoted to measuring the strength of economic ties between the EU with China and the U.S. The multidimensional analysis of the EU-China and the EU-U.S. bilateral cooperation is conducted within the framework of the geoeconomic theory. The main tool used in the first and second part of the research is a literature analysis whereas to reflect the strength of geoeconomic relations between the countries geoeconomic vulnerability indicators were employed.

**Findings:** The BRI is an instrument promoting China's model for international economic cooperation, giving an advantage to the Chinese state and commercial enterprises at the expense of the U.S. and other partners of the EU. Although China has an advantage in terms of trade, its FDI is yet to catch up with those from the U.S. However, as China consistently increases trade and investments in the EU countries, its geoeconomic and geopolitical influence in the region may definitely increase.

**Practical Implications:** The proposed set of indicators can be used to assess and monitor the strength and nature of bilateral relations between countries from a geoeconomic perspective.

**Originality/Value:** The article provides a comprehensive and multidimensional analysis of the current EU-China-U.S. relations in the context of the Belt and Road Initiative. In this paper, the authors examine relations between the above mentioned countries by means of a geoeconomic approach.

**Keywords:** Belt and Road Initiative, EU-China relations, EU-US relations, geoeconomics, measures of geoeconomic vulnerability.

**JEL codes:** F02, F14, F21, F50.

**Paper type:** Research article.

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## **1. Introduction**

The European Union (EU) consists of an exclusive group of countries at various levels of economic development with extensive global interests. As an outspoken advocate for multilateralism, as well as democratic and liberal values, the EU supports maintaining the current international system and seeks to restrain hegemonic tendencies around the globe. Meanwhile, rising China extends its economic and political engagement in all the regions of the world. The manifestation of this desired goal is the Belt and Road Initiative (BRI) officially announced in 2013 by the President of China Xi Jinping (Krukowska, 2016; Kostecka-Tomaszewska, 2018; Krukowska, Kłaczyński and Kostecka-Tomaszewska, 2018). The BRI is currently the key instrument of the Chinese foreign policy that enables China to increase both economic and political clout in the regions covered by the project - to the European Union and the United States' disadvantage - and at the same time avoid confrontation and open conflict. Moreover, China's intensified efforts to change the global economic landscape and expand its political influence in Europe has put the United States (U.S.) in a tricky position. As a result, the EU is becoming increasingly squeezed by strategic competition between China and the U.S., trying to maintain good relations with both partners.

The research aims to examine the scope, nature and strength of the EU's relations with China and the United States, under new circumstances created by the development of the Belt and Road Initiative. In pursuance of the goals, three main research fields were identified. The first part of the research covers the EU-China relationship with special regard to the Belt and Road Initiative development. The second part concentrates on the transatlantic relationship under the specific terms of Sino-American competition. In turn, the third section is devoted to measuring the strength of economic ties between the EU and competing partners.

The multidimensional analysis of the EU-China and the EU-U.S. bilateral cooperation is conducted within the framework of the geo-economic theory. The main tool used in the first and second part of the research is a literature analysis whereas to reflect the strength and nature of geo-economic relations between the above mentioned countries geo-economic vulnerability indicators were employed.

## **2. Literature Review**

The nature of China's recent economic engagement on the European continent remains a subject of many analyses, underlining its political and economic aspects (Shambaugh, 2013; Hanemann, Huotari and Kratz, 2019; Jacques, 2012; Garcia-Herrero and Xu, 2016; Budeanu, 2018; deLisle and Goldstein, 2017; Christensen 2015; Pillsbury 2016; Krukowska, Kłaczyński and Kostecka-Tomaszewska, 2018) and studying the attitudes of the Europeans towards Asian partners (Silver, Devlin and Huang, 2019). However, the analysis of the books and scientific papers has proved that neither politics nor pure economics can legitimately explain the phenomenon.

Therefore authors turned to geo-economics as the field that best reveals the multifaceted aspects of China's presence in Europe and possible implications for EU member states and their economic and political allies.

The term geo-economics has many different definitions. Some authors understand it very broadly, as "anything that touches on both the economy and geopolitics" (Setser and Swartz, 2009). Others underline the "entanglement of issues related to international economics, national security and foreign policy" (Thirlwell, 2010), where equal importance to economics and other fields is attached. However, back in 1996, Reginald Dale (1996) noticed, that with huge economic power shifts, politics and economics cannot be regarded as separate and further definitions proved he was right. The most known – yet not clear enough – definition was worked out by Edward N. Luttwak in the 1990s. According to Luttwak (1990, p. 7), geo-economics is the "admixture of the logic of conflict with the methods of commerce" displacing military methods with market penetration. Luttwak argued, that in a globalized world political borders become irrelevant as markets evolve into a powerful arena, where political clashes are fought out with economic instruments and geo-economic priorities dominate state actions. The ultimate goal of geo-economics is the "conquest or protection of desirable roles in the world economy" (Luttwak, 2010, p. 310) with an important role of large companies used by the states as instruments for geo-economic purposes. Luttwakian geo-economically active states regard all foreign companies – regardless of ownership – as rivals.

Deborah Cowen and Neil Smith (2009) add security angle by identifying geo-economics as emerging geography of economy and security, and notifying, that decolonization broke the geopolitical grip of the European powers and opened the world to U.S. dominance through the global marketplace. Their view is shared by Roger M. Kubarych (2004), who defined geo-economics as "shorthand for a complex notion: the intersection of economics and finance with global political and security considerations". It can be noticed the rising importance of economic security identified with national security and included in subsequent strategic documents (National Security Strategy of the United States of America, 2017, p. 17; Xi, 2017).

French academic Paul Lorot (2004, p. 14) argued, that after the Cold War, with opened borders, free trade and technological advance, the power of states is no longer connected with their military might, but with other factors such as economics, which should be regarded as the beginning of a new era. Lorot found the Luttwakian ideas relevant yet too limited, as not only states but also companies became equal actors in the global arena, and defining geo-economics as the "analysis of economic strategies – in particular commercial ones – decided by the States within the framework of policies aiming to protect their national economy or certain well-identified parts of it, to help their "national enterprises" to acquire mastery of key technologies and/or conquer certain segments of the world market relating to the production or marketing of sensitive products or range of products, in that their possession or control confers on its holder - State or "national" enterprise - an element of power and international

influence and contributes to strengthening its economic and social potential” (Lorot, 2009, p. 14). This complex definition stresses the importance of economic aspects in present relation between countries, underlined by Robert D. Blackwill and Jennifer M. Harris (2016, p. 20), defining geoeconomics as the “use of economic instruments to promote and defend national interests, and to produce beneficial geopolitical results; and the effects of other nations’ economic actions on a country’s geopolitical goals”. Geoeconomics – therefore – is the field restricted to states and companies (state and private), mobilised for the supreme national interest, using tools of peaceful economic persuasion (e.g. anti-competitive practices, restricted access to public contracts, enforcing national monopolies, industrial espionage, or trade barriers) in order to achieve economic and political goals.

On this understanding, the strategy used by China in Europe and on other continents at the beginning of the 21<sup>st</sup> century is a notable example of a geoeconomic approach. After P. Lorot it can be said that “China company” has resorted to available instruments of geoeconomic persuasion, acting as a classic company in search of profits defined as interests of national importance, of economic and political nature.

The present international system, constructed after World War II, has given an advantage to victorious countries – former colonial powers. Through time, international institutions such as WTO, IMF, or the World Bank, became instruments of commercial and financial enforcement of the Euro-American duo, protecting their privileged position and replacing political power by economic means. Economic reasons became the states’ rationale for actions undertaken. Under such circumstances, rising China has activated economic instruments to uphold economic development and increase its chances of success. To sum up, with restrictions and limits imposed on China by long-term beneficiaries of the present international order – the United States and its European allies – China is using geoeconomic instruments to improve its position in the international system and therefore change the existing world order. One of the instruments is the Belt and Road Initiative, a broad programme of economic as well as political expansion strengthening China’s position towards the U.S.

The idea of the Belt and Road Initiative comprising the land-based Silk Road Economic Belt and the sea-based 21<sup>st</sup> Century Maritime Silk Road was presented by President of China Xi Jinping in 2013 (Xi, 2014). Additionally, in 2018, China outlined an ambitious plan to develop a Polar Silk Road across the Arctic (The State Council of the People’s Republic of China, 2018; Lim, 2018). All three branches of the BRI will connect China with Europe by sea and across the Eurasian continent (NDRC, MOFA and MOFCOM, 2015; NDRC and SOA, 2017). This Chinese-led initiative is the world’s most extensive infrastructure project focused on improving cooperation and strengthening mutual relations through better connectivity among countries laying along overland and sea-based routes. China aims to create a network of infrastructure, including roads, railways, airports, land and sea ports, energy

pipelines, power plants and telecommunications to connect Asia with Europe and Africa (Kostecka-Tomaszewska, 2018).

The BRI is a multifaceted geo-economic undertaking based on five pillars: policy coordination between the nations along the Silk Roads, infrastructure construction, investment and trade facilitation, financial integration and people-to-people contacts (NDRC, MOFA and MOFCOM, 2015). The initiative brings together a diversity of focus areas, including political, economic as well as social aspects. It should be noted that each of these dimensions looks at the connectivity through its own lens. Cooperation in areas mentioned above may translate into stronger mutual relations and bring benefits to all countries engaged in the project, but it requires an integration of all these perspectives.

Xi has portrayed the BRI as an inclusive international platform for win-win cooperation serving to facilitate the economic development of all participating countries (Xi, 2014). However, successful implementation of the BRI largely depends on the political will and commitment of potential participants. That is why China is actively promoting its idea among countries laying on possible routes of the BRI and employing various instruments of economic diplomacy known as economic statecraft and defined as using economic resources in order to pursue foreign policy goals (Berridge and James, 2003, p. 91). Undoubtedly, China is able to conduct its economic diplomacy thanks to substantial financial support in the form of huge foreign reserves reaching almost USD 3.2 trillion at the end of 2018 (World Bank, 2020). Thus, as the initiator of the endeavour, China has the necessary financial resources to push forward the BRI and seeks new investment opportunities and projects that need its capital. China has positioned itself as the source of the money required for infrastructure construction on the Eurasian continent and Africa.

Infrastructure development is a crucial element of the BRI enabling all the countries concerned to reap the full economic benefits of win-win cooperation and integration. Because investment projects involving the construction and modernisation of a transport, energy or communication networks are by their nature long-term and capital intensive investments, they require patient capital which China can provide. Through the BRI, China has just started to use its comparative advantage in the form of patient capital to help to release infrastructural bottlenecks along the Silk Routes (Lin and Wang, 2017a; Lin and Wang, 2017b, Kaplan, 2018). Chinese loans have helped to finance large-scale investments in infrastructure, energy and mining in many developing countries. As a result, China has become the world's largest official creditor (Horn, Reinhart and Trebesch, 2019).

Almost all of China's overseas lending and investment is undertaken by the Chinese government, state-owned companies or the state-controlled central bank (Horn, Reinhart and Trebesch, 2019). This means that China is deploying its financial power as a means of pursuing economic and political aims.

The Chinese vision of win-win cooperation, rapid development and reducing development gaps across the BRI community as well as the prospect of access to Chinese patient capital to fund much-needed infrastructure investments has attracted attention from many developing countries. Since its announcement in 2013, the BRI has evolved into a large-scale investment and lending programme blurring the lines between economics and politics. The BRI has enabled China to extend its economic as well as political influence through overseas lending, trade and investment in infrastructure and manufacturing sectors. This economic expansion creates a long-term relationship with BRI countries and may finally result in Chinese dominance over the economies of many countries along the Silk Routes.

China's international role has been growing as the country has become a significant trading partner for many nations as well as a growing source of FDI and funding for infrastructure construction. In recent years, there has also been an increasing presence of the Chinese economic expansion in Europe. Therefore, EU countries should monitor the inflow of Chinese investments and structure of foreign trade with China in order not to become dependent on the Chinese capital and goods.

### **3. The EU-China Relations in the Context of the Belt and Road Initiative**

Diplomatic relations between the European Union and China were established in the 1970s. Initially, the EU-China relationship was based mainly on economic issues. Over time the bilateral relations have become more intensive and extensive. Further, the relationship between the EU and China has evolved into a comprehensive strategic partnership covering a wide range of cooperation areas. According to the EU-China 2020 Strategic Agenda for Cooperation, adopted in 2013, both partners aim for cooperation in the following areas: peace and security, prosperity (trade and investment, industry and information, agriculture, transport and infrastructure), sustainable development (science, technology and innovation, space and aerospace, energy, urbanisation, climate change and environmental protection, ocean, regional policy, social progress, public policy, cooperation on global development) and people-to-people contacts (culture and education, facilitation of people-to-people exchanges) (EU-China 2020 Strategic Agenda for Cooperation, 2013).

It is notable that the process of widening and deepening of cooperation has led to a situation in which the two partners have become extremely interdependent. As a result of the multidimensional nature of cooperation and growing interdependencies between the two sides requiring to deal with complex bilateral issues, the interaction between the EU and China has reached a highly institutionalised level.

The EU-China dialogue takes place parallelly on multilateral and bilateral levels. The institutional framework of cooperation consists of three dimensions including the EU level, “17+1” subregional format as well as bilateral relations between China and individual member states of the EU. Western European countries strive to deal with China on a multilateral basis interaction through the European Union rather than sign

bilateral agreements as individual member states (Daly, 2019). Meanwhile, China prefers meeting in a small group, i.e. with “17+1” countries or with each EU member state separately. Individual meetings enable China to take advantage of economic power and asymmetrical interdependencies in bilateral relations which gives an opportunity to influence economic as well as political decisions of weaker counterparts.

The „17+1“ (previously „16+1“) Cooperation Framework refers to cooperation between China and 17 countries of Central and Eastern Europe. The Platform was proposed by China in 2012, a year before the official announcement of the BRI, in order to institutionalise as well as intensify and expand cooperation with Central and Eastern European (CEE) countries in the areas of trade, investment, finance and people-to-people exchanges (Secretariat for Cooperation between China and Central and Eastern European Countries, 2012). Over time, the “16+1” has become a key platform for promoting the BRI in Europe.

In the beginning, the „16+1“ subregional cooperation format brought together China and most of the former communist countries of the region, including 11 EU member states (Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Romania, Bulgaria, Slovenia, Croatia) and 5 Balkan countries (Albania, Bosnia and Herzegovina, Macedonia, Montenegro and Serbia). In 2018, Greece became a full member of this grouping, turning it into “17+1” cooperation mechanism. It is worth noting that so far Belarus and Ukraine have not been invited to cooperate under the “17+1” initiative. Perhaps the reason is that China recognises these countries as an area of Russian influence. In turn, in the case of the CEE countries, China perceives them as a bridgehead to the EU market and a crucial transit corridor within the BRI towards Western Europe.

China’s vision of mutually beneficial and win-win cooperation under the BRI has been attracting many countries to participate. However, the EU Member States views on the matter of participation in the Chinese-led initiative and China’s growing presence in Europe are divided. Economic leaders of the European Union such as France, Germany and the United Kingdom have not joined the Chinese strategic plan so far. In contrast, Italy and most of the less developed European countries decided to do that since the BRI assumptions have been in line with their needs and development plans. Many developing states hope that participation in the Chinese project enables them to accelerate the process of catching up and bridging the development gap between them and highly developed countries (Kostecka-Tomaszewska and Czerewacz-Filipowicz, 2019). However, it should be noted that China’s growing economic presence in the region can generate economic dependence of European countries on Chinese trade, FDI or money, which may translate into political influence.

Although cooperation between the European Union and China is multidimensional, economic ties form a backbone of their relationship. Trade and investment between the two sides have increased substantially over the last two decades. In 2019, China

was the EU's second biggest trading partner behind the United States and the EU was China's biggest trading partner. Bilateral trade value reached almost USD 751 billion. China was the EU's main source of imports (USD 506 billion) and its second biggest export market (USD 245 billion). The balance of trade has traditionally been unfavourable to the EU. It should be noted that most countries in the world have a trade deficit with China, which also applies to all EU countries (ITC, 2020).

With regards to FDI, China has become an increasingly active investor in Europe. According to the Chinese statistics, the amount of China's outward FDI stock in the EU equalled to USD 90.74 billion at the end of 2018, which accounted for 4.6% of the total Chinese capital invested abroad. The United Kingdom with USD 19.88 billion FDI stock originating from China remained the largest European recipient of the Chinese FDI, followed by the Netherlands (USD 19.42 billion), Luxembourg (USD 15.39 billion), Germany (USD 13.69 billion), Sweden (USD 6.9 billion) and France (USD 6.6 billion) (MOFCOM, NBS and SAFE, 2019). Meanwhile, according to data from Rhodium Group, the cumulative amount of Chinese investment in the EU reached EUR 153.2 billion at the end of 2018. Among the leading receiver of the Chinese FDI were the United Kingdom (EUR 46.9 billion), Germany (EUR 22.2 billion), Italy (EUR 15.3 billion) and France (EUR 14.3 billion) (Hanemann, Huotari and Kratz, 2019). These amounts are much higher than the values reported by the MOFCOM. The difference is due to the methodology used. Statistics provided by Rhodium cover acquisitions and greenfield projects made by ultimately Chinese-owned companies, whereas the MOFCOM's dataset does not consider the primary source of capital and only takes into account the last country through which the investment passed before entering the recipient economy.

Additionally, it should be emphasized that for legal and tax reasons, many Chinese companies decide to invest in the EU economic area through companies registered in the Netherlands, Luxembourg or other countries treated as tax havens, e.g. Hong Kong. At the end of 2018, the total value of the Chinese FDI in Hong Kong amounted to USD 1,100.39 billion, which accounted for 56% of all China's capital invested abroad (MOFCOM, NBS and SAFE, 2019). At the same time, Hong Kong is one of the largest investors in the world (UNCTAD, 2020). So probably a part of Chinese capital has been invested in other countries via Hong Kong. Furthermore, the ownership structures of multinational enterprises are becoming more complex and as a result, capital can be channelled through entities located in various countries within the enterprise structure before it reaches the final destination. In such cases, it can be challenging to identify the ultimate investing country.

Regarding the entry mode, Chinese investors tend to choose the form of mergers and acquisitions while investing in Europe (Hanemann, Huotari and Kratz, 2019, p. 9-10). So far, China has been a participant in global value chains managed by international corporations from highly developed countries. Now, however, China is trying to engage countries along the Silk Routes to cooperate and strives to establish its own production networks. Chinese enterprises take over well-established companies and

form their own network of raw material suppliers as well as subcontractors. As a result, China is becoming the highest link under the newly created global value chains and can manage them following its own interests (Kostecka-Tomaszewska and Czerewacz-Filipowicz, 2019).

The rise of China as the EU's second largest trade partner and an important investor has established strong mutual dependence. The European countries, especially less developed ones, need the Chinese outbound investment while German industrial sector covers the Chinese demand for advanced technologies. However, the growing divide in the perception of China between European countries has resulted in greater awareness of multilateral cooperation regulation deficiencies. The approach towards China has become more conciliatory as the Europeans tried to resist external pressure together. In March 2019, the EU officially acknowledged that China is a systemic rival and strategic competitor (European Commission, 2019b). Subsequently, in order to limit the inflow of investments that may affect security or public order, the EU has introduced a framework for the screening of FDI from non-EU countries (European Commission, 2019a).

The screening mechanism covers investments in specific sectors that are considered strategic such as critical infrastructure and technologies, supply of critical inputs (including energy or raw materials, as well as food security), access to sensitive information, the freedom and pluralism of the media as well as investments planned by a foreign investor controlled through ownership structure or significant funding by the government of a home country (Official Journal of the European Union, 2019). According to the estimation of Rhodium Group, the majority of Chinese investments undertaken in the European Union economic area in 2018 met at least one of the criteria set by the EU under the FDI screening mechanism (Hanemann, Huotari and Kratz, 2019).

By the end of 2019, exactly 18 European Union member states officially endorsed the BRI, including the first G-7 member: Italy. As Europe intensifies cooperation within the project, cleavages arise when member states compete for Chinese investments. Unequal distribution of Chinese investment and trade engagement are the most common sources of grievances among member states, as major countries (Germany, France and the UK) are China's preferred partners. However, Europe should not rely on China in providing development assistance on the continent and its direct neighbourhood. Divided Europe, as it is, unable to defend its strategic interests, will be neglected and exploited by stronger partners, both China and the U.S., using particular member states against each other.

#### **4. The EU-U.S. Conundrum**

The U.S. and its European allies share over 70 years of common history, with long periods of peaceful cooperation hindered by temporary difficulties. Eventually, partners have always valued mutual friendship and the transatlantic partnership, as

often referred, has long been the backbone of the allies' foreign policies. Nowadays the EU and U.S. have extensive cooperation in all sectors, from supporting each other in dealing with national security threats to technological cooperation.

Despite the absence of the free trade area and limited trade disputes, the EU and U.S. remain each other's largest trading partners and investment sources. The "transatlantic economy" accounts for almost 30% of global merchandise trade, close to 40% of world trade in services, about half of global GDP, and over half of global foreign direct investment (European Commission, 2019c). Bilateral cooperation creates almost 15 million jobs on both sides of the Atlantic (The EU External Action, 2018). The bilateral partnership also has a crucial security dimension as the U.S. remains Europe's main security provider and a counterbalance to Russia (Kuo, 2019).

The EU and the United States have forged a highly successful and responsible partnership, where the actors cooperated to mutual benefit in order to solve current regional and global problems, including trade liberalisation, climate change, peace and security challenges. Yet, the last years were marked with growing distrust and mutual dissatisfaction. The convergence of interests is no longer as unquestionable as it used to be. Under President Trump's America First policy the present American administration is undermining bilateral and multilateral projects and commitments, to mention Transatlantic Trade and Investment Partnership (TTIP), Trans-Pacific Partnership (TPP), impediment to the work of organisations (WTO, UN), the withdrawal from the Paris climate agreement or the 2015 nuclear deal with Iran.

The number of sensitive issues is rising, destroying mutual synergy. Strong security ties between both shores of the Atlantic are weakening due to rising American objection to what they perceive as European negligence towards increasing financial engagement in NATO security alliance. The list of trade frictions has been growing: President Trump has introduced countermeasure tariffs on European merchandise worth up to USD 7.5 billion for subsidies to Airbus (Politi, Hollinger and Fleming, 2019), or for American growing trade deficit in merchandise and services of USD 115 billion in 2018. There are respective cases in the WTO on U.S. tariffs on imports of steel and aluminium under the "Section 232" trade law and EU's retaliatory tariffs on circa USD 3 billion of American products. Potential trade conflicts involve autos and auto parts' exports from EU, as well as digital services tax introduced by France in 2019, affecting American – and global – technology companies (GAFA: Google, Apple, Facebook, and Amazon). Pending trade negotiations include such conflict areas as digital trade, government procurement, agriculture, regulatory cooperation, and geographical indications.

Despite cleavages, transatlantic cooperation is being continued, based on mutual interests and interdependence, though with less engagement. The Trump administration does not hold back from using pressure on European member states to align with American foreign policy priorities. In September 2019, Washington pushed the EU for tougher sanctions on Venezuela (Williams and Peel, 2019), in October,

American tariffs were imposed on USD 7.5 billion European goods. The U.S. threatened sanctions on Germany for the Nord Stream 2 involvement and expressed concern over 5G network development in Europe were American and Chinese companies compete.

The EU's economic cooperation with China poses a considerable threat to American economic interests on the European continent. Increased comprehensive cooperation of the EU member states with China, including extensive trade and investment, as well as technology transfers, has been raising American anxiety and undermining shared economic and security interests. With Huawei participation in the UK's 5G infrastructure network approved, the U.S. will have to face stronger Chinese competition on the European market. Recently, China has been winning the European markets with its nuclear and high-speed railway technologies, achieving contracts lost by American companies.

Furthermore, the Chinese ownership and control of critical utilities (e.g. UK, Portugal) and transportation hubs (e.g. Piraeus port in Greece, railways) across Europe potentially impair NATO's ability to respond in case of a conflict, just as intra-European divisions on China may translate into lower effectiveness of the alliance (Le Corre, 2019), thus undermining important security basis of the EU-U.S. cooperation. The fact that, despite American pressure, Huawei will not be barred from the 5G communications networks rollout in Germany or France, also threatens the intelligence-sharing within the alliance. Decreasing American influence was visible particularly in 2015, when its traditional ally – UK – was the first EU member to answer the Chinese call and joined the AIIB as a founding member. The fact that it was followed by eighteen other EU members only worsens the situation as the U.S. put pressure on its allies not to join the institution. As the American U.S.-China Economic and Security Review Commission noticed, China's use of different instruments of national power aims to undermine and subvert the U.S. alliances and partnerships (U.S.-China Economic and Security Review Commission, 2018, p. 305), causing conflicts between the allies.

In Europe, growing transatlantic divide on China has resulted in greater awareness of bilateral cooperation deficiencies. The new, less conciliatory approach adopted recently applies not only to China, but also to the U.S., as the German officials suggested that the U.S. companies posed just as much threat as Chinese ones, considering the 5G network construction (Chazan, 2019). If President Trump continues to withdraw from international commitments and push against China, the security, political and economic ties, that have developed after WWII, might be regarded in Europe more as a liability than an asset. As American foreign policy under Trump has become unpredictable and evidence (the withdrawal from Syria) shows that alliances can be overturned at any given moment, the EU – trapped in between two competing rivals – may turn away from its traditional Western ally. The last years prove, that the EU and its member states are more likely to rebalance towards China and Asia than stand by an uncertain and unpredictable ally. The American influence

on the European continent will definitely be weakened by Brexit, as the European Union without the UK will certainly be less eager to adhere to the U.S.'s advice and less predictable than ever, especially with all internal differences among member states.

The vacuum left after American disengagement might be filled by a new G-2 group, where the EU and China will exercise global responsibilities in pending problems, as climate change or trade. This scenario requires a great deal of trust between partners, not to mention at least passive acceptance from the U.S. Beside sensitive contentious issues, including unequal access to markets, state support or 5G construction, lack of military or geopolitical competition and the tensions they entail, it makes it far more likely that the European and Chinese leaders could build the mutual trust required for a workable G-2 framework (Lungu, 2017).

With the U.S. reluctant to preserve its privileged relationship with Europe, entering the new cooperation framework may be the only way to preserve Europe's position and stimulate economic development. To succeed, the EU needs to be more united than ever. As long as the Europeans remain self-concentrated and keep securing their own national interests, the EU will be vulnerable to implicit pursuits of its traditional allies and new best friends.

## **5. Measuring the Strength of Geoeconomic Ties between the EU Countries with China and the United States: Methodology and Results**

Since strong economic links tend to translate into political influence through many different channels, it makes sense to define measures of tie strength and dependency based on the multidimensional nature of economic interactions between countries. Moreover, as the asymmetrical economic interdependence among countries is one of the sources of political power and may be conducive to the utilisation of this power (Keohane and Nye, 1987; Liang *et al.*, 2019), it is essential to determine the direction of asymmetry in the economic relationship and measure a degree of geoeconomic vulnerability. If the degree of geoeconomic vulnerability of a country is high then such a country is able to be easily influenced by a less dependent partner. As trade, investment and foreign loans are the main dimensions of economic interactions between countries, consequently these variables can be used to analyse the strength of bilateral relations and asymmetry of interdependence between countries.

The overall picture of the strength of bilateral relations, as well as the degree and directions of economic dependence between countries, can be characterized by indicators introduced in Table 1. The presented indicators form a comprehensive set that can be used to investigate the economic linkages between countries from the angle of geoeconomic vulnerability.

**Table 1. Measures of geoeconomic vulnerability**

<b>FORMULAS</b>	
Trade intensity index = $\frac{\text{Export}_{ij}}{(\text{E})\text{Export}_{ij}}$ , $(\text{E})\text{Export}_{ij} = \frac{\text{Export}_{iw}}{\text{Export}_{ww}} \times \frac{\text{Import}_{wj}}{\text{Import}_{ww}} \times \text{Export}_{ww}$	
FDI intensity index = $\frac{\text{FDI}_{ij}}{(\text{E})\text{FDI}_{ij}}$ , $(\text{E})\text{FDI}_{ij} = \frac{\text{FDI}_{iw}}{\text{FDI}_{ww}} \times \frac{\text{FDI}_{wj}}{\text{FDI}_{ww}} \times \text{FDI}_{ww}$	
Import-to-export ratio = $\frac{\text{Import}_{ji}}{\text{Export}_{ij}}$	
Inward-to-outward FDI ratio = $\frac{\text{FDI}_{ji}}{\text{FDI}_{ij}}$	
Import sensitivity index = $\frac{\text{Import}_{ji}}{\text{Import}_{wi}} \div \frac{\text{Import}_{ij}}{\text{Import}_{wj}}$	
Export sensitivity index = $\frac{\text{Export}_{ji}}{\text{Export}_{iw}} \div \frac{\text{Export}_{ij}}{\text{Export}_{jw}}$	
FDI sensitivity index = $\frac{\text{FDI}_{ji}}{\text{FDI}_{wi}} \div \frac{\text{FDI}_{ij}}{\text{FDI}_{wj}}$	
Import dependence index = $\frac{\text{Import}_{ji}}{\text{GDP}_i} \div \frac{\text{Import}_{ij}}{\text{GDP}_j}$	
Export dependence index = $\frac{\text{Export}_{ij}}{\text{GDP}_i} \div \frac{\text{Export}_{ji}}{\text{GDP}_j}$	
FDI dependence index = $\frac{\text{FDI}_{ji}}{\text{GDP}_i} \div \frac{\text{FDI}_{ij}}{\text{GDP}_j}$	
Import penetration index = $\frac{\text{Import}_{ji}}{\text{GDP}_i - \text{export}_{ij} + \text{import}_{ji}} \div \frac{\text{import}_{ij}}{\text{GDP}_j - \text{export}_{ji} + \text{import}_{ij}}$	
<b>VARIABLES</b>	
FDI <sub>ij</sub>	actual amount of outward FDI stock from country i in country j
FDI <sub>ji</sub>	actual amount of outward FDI stock from country j in country i
(E)FDI <sub>ij</sub>	expected value of outward FDI stock from country i in country j
FDI <sub>iw</sub>	total outward FDI stock of country i in the world
FDI <sub>wj</sub>	total inward FDI stock in country j
FDI <sub>wi</sub>	total inward FDI stock in country i
FDI <sub>ww</sub>	worldwide inward or outward FDI stock
Export <sub>ij</sub>	exports from country i to country j
Export <sub>ji</sub>	exports from country j to country i
(E)Export <sub>ij</sub>	expected exports from country i to country j
Export <sub>iw</sub>	exports from country i to world
Export <sub>ww</sub>	world exports
Import <sub>ji</sub>	imports of i from country j
Import <sub>ij</sub>	imports of j from country i
Import <sub>wj</sub>	imports of j from world
Import <sub>wi</sub>	imports of j from world
Import <sub>ww</sub>	world imports
GDP <sub>i</sub> ,	gross domestic product of country i
GDP <sub>j</sub>	gross domestic product of country j

*Source:* Own elaboration based on the literature review and own research.

To address the problem of measuring the strength of economic ties between countries, the authors of the article recommend that trade and FDI intensity indices should be taken into account. The trade intensity index proposed by Srivastava and Green (1986)

can provide useful information on trade interdependence between countries. This index can be used to determine whether the value of trade between two countries is greater or smaller than expected based on their importance in world trade. The trade intensity index equals the actual value of trade between countries i and j divided by the expected value of trade between these countries, where the expected intensity of bilateral trade relations is shaped by the importance of the two economies as importer and exporter in the world trade. The trade intensity index higher than 1 indicates that trade relationship between countries i and j is stronger than expected, given the share of these countries in the world trade. In turn, the index value below 1 implies that the relationship is weaker than expected (Srivastava and Green, 1986).

It is also possible to assess the intensity of the FDI relationship between a home country i and a host country j by using the FDI intensity index formulated in a similar way to the trade intensity index proposed by Srivastava and Green (UNCTAD, 2007, p. 21). The FDI intensity index is defined as a ratio that compares the actual value of the outward FDI stock of country i in country j with the expected value, considering the world position of each of them as home and host countries respectively. The indices of greater than 1 signify that the FDI relationship between countries is stronger than expected, whereas the indices of less than 1 reflect weaker than expected economic links.

In turn, the degree of asymmetry in the economic relationship between countries is well-reflected by the import-to-export ratio and inward-to-outward FDI ratio. The authors of the article propose the import-to-export ratio as a measure of the degree of benefits asymmetry when it comes to trade between countries, i.e. to investigate who benefits more from bilateral trade. The index is calculated by dividing the value of imported goods from country j to country i by the value of exported goods to country j from country i. The indices higher than 1 indicate a negative trade balance of country i whereas indices smaller than 1 mean the trade balance is in favour of the country i.

Consecutively, the inward-to-outward FDI ratio may be seen as an indicator of the degree of asymmetry with regard to FDI flows between countries. The indices higher than 1 imply that country i receives more FDI from country j than conversely, while the indicators lower than 1 suggest the opposite situation. The higher the above discussed indicators are, the more asymmetrical the relationship between the countries is and country j is more expansive than country i i.e. the country i dependence on imports or FDI from country j is higher than conversely.

Furthermore, to analyse the asymmetry of interdependence between countries sensitivity indices can be used as well. However, apart from the direction of the asymmetry, these indicators also show a degree of dependence of a particular economy on bilateral cooperation with partners in the area of trade and investment. The import sensitivity index is calculated as the ratio of the share of imports from country j in the total imports of country i to the share of imports from country i in the total imports of country j. The index higher than 1 implies that country i is sensitive

to country j. Other sensitivity indicators (i.e. the export sensitivity index and FDI sensitivity index) are formulated analogously (Table 1). The higher the sensitivity indicators, the more susceptible the country i is to external factors which are beyond the reach of national economic policy i.e. the activities of the country j.

In addition, the direction of the asymmetry and degree of geo-economic vulnerability can also be measured using dependence indicators (Table 1). Import Dependence Index is calculated by dividing the import of country i from country j by the GDP of the country i. This index should not be confused with the Import Penetration Index, which shows to what degree domestic demand is satisfied by imports. The Import Penetration Index can be calculated at the sectoral level (OECD, 2010, p. 76). Both indices mentioned above are measures of the importance of imports in the national economy, whereas the Export Dependence Index shows a degree of reliance of domestic producers on foreign markets. Higher Export Dependence Indices indicate greater dependence on foreign markets (UNCTAD, 2019, p. 16). In turn, the FDI Dependence Index shows to what extent a country i is dependent on the FDI stock originating from country j. The higher the dependence indicators the more vulnerable the country i is to its economic partner's foreign policy.

Summing up, high indicators measuring geo-economic vulnerability mean that a country is economically reliant on cooperation with a particular partner. As a result, a less dependent country in the relationship holds more power to influence economic and political behaviour of a more dependent country. Therefore, the above-mentioned indicators should be definitely monitored to make policy makers get knowledge of the nature of bilateral relations and warn against excessive geo-economic vulnerability.

The above described indicators were employed to analyse the trade and investment relations that the EU countries have with China and compare them to the ones they have with the U.S. The analysis was conducted for 2013 and 2018 based on data from the IMF, OECD, World Bank, International Trade Centre and Ministry of Commerce of the People's Republic of China. The calculated indicators enabled to review the EU countries performance of exports, imports and FDI flows along various dimensions, which together give a comprehensive picture of strength and nature of bilateral relations between the EU countries with China and U.S.

Over the last few decades, China, the U.S. and EU economies have become intertwined in a web of global production networks, thus increasing their mutual dependence. In 2018, the trade intensity indicators were larger than 1 with respect to the Czechia (1,66), Poland (1,37), the United Kingdom (1,12), Estonia (1,06), Germany (1,06) and the Netherlands (1,05), which means that the trade relationships between these countries and China were stronger than expected, given the share of these countries in the world trade. While in the case of trade relations with the United States, the trade intensity indicators higher than 1 were observed only in the case of Ireland (1,18), the United Kingdom (1,17) and the Netherlands (1,1).

All the EU countries have had a trade deficit with China. Moreover, in many cases for the period 2013-2018, EU countries' trade with China showed a rising deficit. In 2018, countries such as the United Kingdom, France, the Netherlands, Poland and Spain had the largest trade deficit with China (International Trade Centre, 2020). Furthermore, all the countries recorded the import-to-export indicators higher than 1. The indicators achieved the highest value in the case of Poland (12,38) and Czechia (10,08). This implies that China benefits more from market access in the European Union countries than vice versa. Trade cooperation was more balanced with the United States. In most countries, the indicators were below 1 or between 1 and 2.

For many countries, China is also an important partner when it comes to exports, with Germany and the United Kingdom taking the lead. Both countries are the largest exporters to China among the EU countries and exports to China constitute a significant part of the total exports of these countries - 7.05% and 5.69% respectively, while the leaders in exports to the United States are Germany, the United Kingdom and Italy. Meanwhile, in terms of exports, the U.S. is an important partner for countries such as Ireland, the UK and Germany. Exports to the USA account for 27.8%, 13.4% and 8.6% of the total exports of these countries respectively. Based on the import and export dependency indicators, it can be found that the EU countries' dependency on trade with China and the U.S. is high. Both indicators are higher than 1 for all the EU countries. When it comes to the import dependency indicators in relation to the EU-China relationship, the highest indicators were observed in the case of Cyprus, Estonia, Latvia and Croatia. In turn, regarding relations with the U.S., the highest import dependency indicators were in the following countries: Malta, Cyprus, Slovenia and Luxembourg.

When considering cooperation with China, the import dependency indicators are higher for all the EU countries, except for Belgium, compared with the U.S. As for the export dependency indicators, the opposite occurs. In the case of cooperation with the U.S., all the countries achieve higher rates than concerning cooperation with China.

The EU countries have also had close investment ties with China and the U.S. China, with significant trade linkages with the European Union countries, is lately expanding its economic presence in Europe also through foreign direct investments. Although China still features modestly as the EU countries' FDI partner, it should be noted that its role as an investor is steadily increasing.

It can be concluded that although China has an advantage in terms of trade, its investments are yet to catch up with those from the U.S. However, as China consistently increases trade and FDI in the EU countries, its geoeconomic and geopolitical influence in the region may definitely increase.

## **6. Conclusions**

The BRI is an instrument promoting China's model for international economic cooperation. It puts the Chinese state and commercial enterprises at an advantage, at the expense of the U.S. and other partners of the EU. At the same time, Europe's active participation in the BRI projects legitimises China's efforts and policy of economic expansion, as well as indirectly influences the U.S. and other partners.

The EU is now being challenged to try to maintain good relations with China and the U.S. against the background of their strategic competition. It should be careful about managing its approach towards both competing superpowers. The economic cooperation should be balanced and satisfactory to all sides, yet with special concern to the EU's development targets and political interests.

Multilateralism should remain the basis of international economic cooperation, as it satisfies best the European interests. The EU should be open to sectoral arrangements in the fields of trade, investment, information sharing, technology exports, international support for the WTO reforms etc. with both partners. A value of reciprocity should be signalled more distinctly to the Chinese counterpart while shared democratic and liberal values should be the basis of the transatlantic partnership.

The alliance that once connected both sides of the Atlantic can revive and give both sides leverage over China. The combined economic power of the EU and the U.S. exceeds three times that of China. Prevailing technological advantage can be sustained only under close cooperation and partnership. Without mutual efforts, China will inevitably overcome and dominate solitary states and the international system will never be the same.

With the U.S. indifference and China's hegemonic aspirations, a possibility exists that the EU might be pushed aside and marginalised by rising assertive China, trying to change the international order. Instead, the EU should increase efforts to become a full-fledged player, not an instrument used by China or the U.S. as leverage. Therefore Europe must be more coherent, ambitious, self-confident and determined to build a constructive relationship with China and achieve win-win cooperation. The member states should find the will and common interests and unite in order to increase European strategic independence and autonomy.

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