

## Chapter 1. Introduction

### 1.1. Research Background and Purpose

Following the global financial crisis in 2008, China's economic power and political influence have expanded rapidly on the global stage. Certain countries have been particularly affected as a result of their high exposure to China. China's growing presence in their economies and society have challenged their capacity to manage and reduce their vulnerabilities and risks. This has been especially notable in strategic regions, such as Western Europe, namely, in Germany, Italy, France, the Netherlands, and Belgium, as well as in certain Central and Eastern European countries (CEECs). While China's expanding footprint in the different European regions has brought some socioeconomic opportunities in certain countries, in others it has exacerbated governance weakness and undermined political and economic stability (Brattberg, Le Corre, Stronski & de Waal, 2021). Indeed, China's rapid rise has changed the geopolitical and geo-economic circumstances and brought new challenges for the U.S., the European Union (EU), and individual EU member states. The EU and its Member states are among the regions where China has made significant inroads through the launch of cooperative formats, such as the 16+1/17+1 framework, and a cooperative mechanism with the EU's 27 Member States collectively under the Belt and Road Initiative (BRI).

According to conventional hegemonic theory, the hegemons firstly increase their regional power influence prior to exercising soft power. Through the BRI, China intends to bind neighbors and participating countries to its own foreign policy interests. The empirical research, however, has demonstrated that China's strategies and tactics have had mixed results. Most studies concentrate on realism and neorealism to explain China's behaviour as balancing or hedging in relation to the influence of other regional or global hegemons, like the U.S. or Russia. Garcia-Herrero et.al (2020:9) argued that China creates an "unequal level playing field" and a different political system between China and the EU can hinder their cooperation (Mizanul, 2021). Against this background, a Comprehensive Agreement on Investment (CAI) between the EU and China signed by both parties at the end of 2020, could be seen as an attempt to bring balance in bilateral cooperation. The dynamics surrounding CAI suggested that the interdependence between China and the EU has changed.

However, the views of European political leaders and the public alike on China have deteriorated as a result of a series of factors, including China's insistence on its unique economic system, a lack of transparency in governance and a lack of human rights improvement inside China, Beijing's market protection policies, authoritarian tendencies, and cybersecurity challenges, among others. These growing grievances across Europe have pushed the EU to label China simultaneously "a partner, an economic competitor and a systemic rival" (The Diplomat, May 25 2021). Meanwhile, on 1 December 2021, the EU Commission unveiled the Global Gateway (GG) strategy, which has been broadly regarded as an alternative to China's BRI. The EU's changing perception of China has

evolved in step with the growing economic and trade demands of each other. The empirical experiences of the BRI have shown that it is not only a vehicle through which the leadership's "China Dream" for growth, power, and prestige seeks to connect China with other countries, but also the ultimate tool for Beijing to increase its geopolitical influence. In particular, Russia's full-scale invasion of Ukraine in February 2022 challenged Europe's geopolitical and geoeconomic standing. Undoubtedly, the economic strength of states constitutes a significant factor both in the format of hard power and soft power. China, as an increasingly powerful country on the global stage, has projected its global influence through a geostrategic approach in order to create a path of economic dependency for the countries with which it has engaged. How the war might change global politics and the EU's foreign and security policy, as well as its global role and relevance, remains an open question that requires close consideration.

Overall, EU-China relations remain complicated, while China is deeply involved in the global economy. Its imports and exports account for one-tenth of the world's total value, and investment accounts for one-fifth of global investments according to the statistics of Eurostat (Eurostat, 2020; European Parliament, 2020). Therefore, China at present is a central part of the global industrial chain.

With the normalization of EU-China relations, the two sides have launched the EU-China Annual Summit in 1998. They have since established more than 65 sectoral dialogues to address issues affecting bilateral relations, covering trade, finance, environment, energy, education, consumer and labor safety, space cooperation, and civil society, among others (Hu, 2020). In addition, they also hold two high-level forums to promote broader and deeper cooperation. The high-level economic and trade dialogue launched in 2008 focuses on trade, investment, intellectual property, and market access, while the high-level strategic dialogue started in 2010 facilitates discussions on a series of issues ranging from climate change, nuclear non-proliferation, to regional security. In addition to cooperation, however, contradictions and challenges in the bilateral relationship also exist, such as human rights issues, governance, technology competition, etc.

As the considerations and relative positions of the two actors have changed, China-EU cooperation has become increasingly challenging. Although they have many common interests, they are also competitors in the international order which have come under increasing pressure. Under such circumstances, it is difficult to simply use cooperation or conflict to assess EU-China relations.

The EU has used different labels to describe China. It views China as a partner with whom it shares closely shared goals in numerous areas. It also sees China as a negotiation partner with which the EU needs to seek a balance of interests, an economic competitor in the EU's pursuit of scientific and technological leadership, and finally a systemic challenger to the EU's governance model. Approximately six months after the Strategic Outlook on EU-China Relations was released, in September 2019, European Commission President Ursula von der Leyen once again called China a

systemic rival in her State of the Union address before she took office again as Commission President (Giovanni Lizzi, 2024). This suggested that under her guidance, the EU would continue regarding China as an important player in the future. From 2013 to 2019, the EU's perception of China's role has changed. The EU has gradually become more vigilant, shifting from its earlier view of China as primarily a "partner".

How to explain the fact that the EU has conferred various roles in its approach to China? Indeed, Europe's China policy is one of its most challenging policies. On the one hand, in view of China's growing economy and power in the world, Europe is eager to cooperate with China on economic and trade issues; on the other hand, China is still an authoritarian regime (Grasse & Eissel, 2023), and an affront to the political ideals and principles that the EU upholds as an international organization. Therefore, in its relations with China, the EU must achieve a balance between two competing considerations, i.e., interests and values.

The EU announced the establishment of a strategic partnership with China in 2003, and reconfirmed it in 2013 as a "comprehensive strategic partnership". The multifaceted perception of China could not be explained by a single factor. Many issues have led to the contradictory perceptions, including the strengthening of China's top-down, authoritarian regime, domestic industrial pressures across the EU, growing geopolitical tensions, and the differences between EU member states. Between 2016 and 2018, China's increasing authoritarianism at home and its hardline attitude abroad, as well as the impact of its activities on the interests of the EU, have led some EU government agencies and industry associations to take these new realities into consideration and adjust their policies on China accordingly. For example, the Confederation of German Industry (BDI) in January 2019 stated that the present time is a turning point for EU-China relations in its report, called "Partners and Systemic Competitors: How to Deal with China's State-Controlled Economy?" (Le Corre, 2019). In the report, it is the first time that China is defined as a systematic rival by an entity of the business sector. Well-known business organizations, such as Business Europe, VDMA, and Confindustria also released their own China strategies in 2019 and 2020. In the same year, the Dutch and Swedish governments presented their respective China strategies.

Several reasons exist for these transitions. For decades, the EU has been disappointed that China has failed to fulfill its promise to level the playing field in trade and investment. China has also delayed negotiations on bilateral investment agreements for more than six years. At that time, the EU has experienced a great amount of business lobbying (e.g., some influential industrial and commercial organizations, like the BDI and Business Europe). Members of the European Parliament (EP) have also advocated a tougher approach to China. However, there are still some member states that are eager to maintain good trade relations with China, such as Germany, Hungary, France, and Greece. Italy is viewed as relatively more reluctant, and was the first G7 country to join China's BRI in 2019 and then announced its withdrawal from it at the end of 2023. Germany, as the most

powerful member and the largest trading partner within the EU with China, has faced uncertainty concerning its China policy.

French President Emmanuel Macron stated that the European Commission's policy change means that "the era of European naivety is finally over." (Barkin, 2020). This means that the relationship between the EU and China would no longer focus solely on economics and trade, but must be updated with a focus on geopolitical challenges and strategic considerations. This is mainly due to the fact that they are driven by different strategic considerations. While the U.S. is engaged in a major strategic competition with China, the EU seeks closer and more balanced cooperation with China, without the burden of strategic rivalry. Former EU High Representative of Foreign and Security Affairs Josep Borrell said, China is not a military threat. "China has a global ambition, but at the same time I don't think that China is playing a role that can threaten the world peace" (Barigazzi, 2020; Politico, 9 June 2020). Former German Chancellor Angela Merkel had also stated that "the relationship with China is very important and of strategic significance." (Barkin, 2020). Essentially, although the EU has labeled China as a "competitor", it has not abandoned its strong interest in developing relations with China.

Although the leading members of the EU have become cautious, there are still member states that seek closer ties with China, a good example of which is Greece. Although the European Commission and many member states have urged Greece not to become too close to China, due to the need for economic recovery and distrust of major EU countries, Greece still became a member of One Belt One Road (OBOR) and allowed the Greek Port Piraeus to become the first OBOR stop in Europe. It, therefore, seems that Greece is still actively participating in OBOR and has taken advantage of China's ambition to use Greece as a demonstration zone for the OBOR. The example of Greece's active participation in the BRI and Italy's recent attempt to withdraw illustrate the differences among EU member states. Some countries oppose the BRI, some support it, some have joined it but seek to withdraw, and many countries display a wait-and-see attitude. These different positions have challenged a collective China policy in the EU.

An important question to address is whether it is still possible for the CAI to be ratified. The negotiations concluded under the leadership of the so-called German engine, which has led to substantial criticism. The EP has also strongly opposed the agreement because of China's poor human rights record. Although the EP held elections in May 2024 and several MEPs critical of China finished their mandate and did not run again, the future of CAI remains uncertain. According to the author's interviews with several officials of the European Commission, the CAI is considered somewhat obsolete. The negotiations were finished in 2020, and much has occurred since that time. The pandemic has changed global politics and the global economy significantly. For instance, the prevailing de-risking (or even de-coupling) approach did not appear prior to the pandemic. Many EU officers believe that an agreement with China is indeed necessary, but it may not take the form of the CAI. If it is still carried out in the form of the CAI, it is thought that many aspects will have

to be renegotiated.

This research aims to explore the shifts in EU-China relations in the context of economic diplomacy and the theory of asymmetrical interdependence and institutional balancing. In terms of macro-level analysis, the BRI, CAI, and GG will be used as policy cases to explain economic and political power involvement in EU-China relations. At the micro-level, this study examines Germany, Greece, and Italy to elucidate the limitations, developments, and expansions in their participation in EU-China related projects.

From a theoretical perspective, in the context of asymmetrical interdependence and institutional balancing between the EU and China, this dissertation aims to investigate the evolution of the strategy of bilateral economic diplomacy (hereinafter ED). Odell (2000) developed the game-theoretical model to explain the diplomatic mediation and bargaining of states in international economic negotiations. In a similar vein, Putnam (1988) proposed the neo-liberal game theory approach to analyze the domestic and international level in international negotiations as the theoretical basis for a country's diplomatic decision-making thinking and strategy in promoting ED. In the context of international political economy, economic liberalism focuses on dynamic cooperation between state and non-state actors and emphasizes the stability of the international system. Specifically, when a state or a regional regime realizes that all of the actors tend to share bilateral interests, they will intend to cooperate to gain absolute benefit, which is so-called 'Pareto Efficiency' (Lockwood, 1987). Based on this approach, Amal (2021) stated that even with differences in the political system, it is still possible to establish interdependence of economic interests. This is the reason that this study evaluates theoretical feasibility by using the cases of the BRI, CAI, and GG between the EU, China, Germany, Italy, and Greece as case studies. Germany, as the most influential EU member state, has prioritized maintaining closer and positive relations with China, rethinking the value-based foreign policy that Germany needs, a new policy model under Olaf Scholz Rot- Gruen-Gelb ruling coalition. Although Italy is the first large European economy to join China's enormous infrastructure project in March 2019, Prime Minister Giorgia Meloni announced that her government would withdraw from the BRI project in December 2023. Greece benefits from a healthy relationship with China, and has become a member of the 17+1 initiative in November 2019.

## **1.2. Research Questions and Hypotheses**

A thorough analysis of the extent to which countries have aligned with China is still lacking. Most literature on interdependence and conflict shows that open international markets and heightened economic exchange inhibit interstate hostilities (Mansfield & Pollins, 2001). Debate exists between liberals and realists, entailing conceptual foundations and causal mechanisms. The diversified arguments of liberalism and realism provide a rich source of aspects to engage academic debates on conflict and interdependence in the fields of international political economy, including regional

cooperation, integration, international organizations, and regimes, respectively. This also concerns key issues of national foreign policy. How, when, and to what extent mutual economic interests affect the atmosphere and tenor of international politics require further exploration. Therefore, based on plausible hypotheses about the connections between interdependence and conflict, this dissertation focuses on establishing whether these factors are systematically related, with various theories to support the results of the empirical study. How the core and major arguments of the theoretical level can be applied to the empirical issues needs to be assessed. This research proposes to fill these gaps by looking at the relationship between the EU and its member states and China.

The primary goal of this thesis is to examine the shifting role of European Economic Diplomacy (ED) toward China's engagement through the BRI. The ED plays a significant role for the EU and China during the process of implementation of their foreign policy. In this regard, based on Kydd's theory on trust and perception, this research draws on qualitative process tracing as a theoretical framework to analyze how a series of complex processes of mutual understanding between Europe and China can gradually increase mutual trust and promote bilateral economic and trade cooperation on the one hand, and reduce hostility and rivalry in politics on the other hand. Kydd (2005:44) stated that "trust can be eroded through competition, even though the actors themselves are trustworthy" and argues that states may have mixed motivations. Accordingly, Kydd constructed the innovative concept of spiral equilibrium which can assist to understand how the actors (the EU, China, EU member states, etc.) gradually affect their willingness to cooperate. Kydd's rationale, as opposed to other spiralling theories, allows not only for downward-spiralling of mistrust and non-cooperation, but accounts for the possibility that justified trust may just as well facilitate cooperation (Kydd, 2005).

This thesis firstly provides an overview of the evolution of EU-China relations. At the theoretical level, economic diplomacy, regionalism diplomacy, realism, asymmetry, institutional balancing strategy, comparative advantage, and the Spiral Game model by Kydd will be introduced and examined. At the empirical level, this study explores the cases of three EU member states within the framework of the BRI: the reluctant actor Italy (the first EU large economy with the signing of the MoU to join the BRI and the change of government led by M. Draghi in 2021 further embedded in Italy's traditional alliance); the positive actor Greece (relations with China are positive, and there is significant Chinese investment in the country); and Germany, the largest trading partner of the EU. The EU's GG, China's BRI, and the EU-China CAI will be considered.

The second goal of the thesis is to gain comparative insight by using qualitative analysis, and quantitative and mixed methods approaches, which include literature and content analysis, theoretical interpretations, and descriptive statistical analysis (using the data from Eurostat, National Bureau of Statistics of China, among others), in-depth interviews, and case studies. In the context of contact between the actors, this thesis evaluates how the actors (the EU, China, and the three selected EU member states) choose their policy preferences and how their policies affect their

willingness to cooperate. The perceptions of the actors and the signals of the key policies and events may indicate the results of the interactions (Figure 1-1).

These arguments help to examine the following core aspects: the EU's strategic autonomy and participation of individual EU member states in the BRI; the results of the approval process of the CAI at the national level; and the implementation of the GG in EU-China relations. In this way, the question of how the innovative theory-informed hypotheses should be tested is addressed. Kydd's rationale approach demonstrates how the levels of cooperation and competition are assessed between different actors. However, this remains understudied. Therefore, this thesis conducts structured and semi-structured interviews in various approaches (face-to-face, written, and on-line interviews) with a total of 29 interviewees from nine countries (Germany, Poland, Hungary, Italy, Greece, Estonia, Belgium, Taiwan, and China) consisting of academics, policy-makers, EU-China experts, scholars, diplomats, political actors, and private-sector actors.

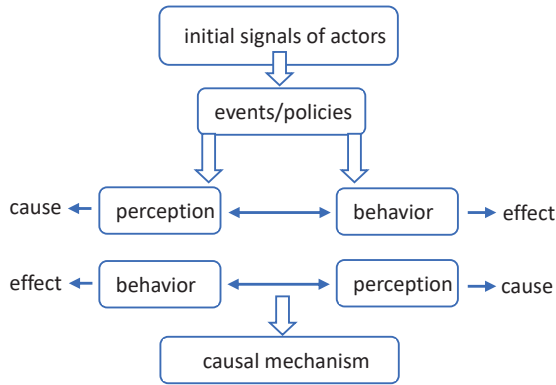


Figure 1-1: Causal mechanism model based on Buttkus.

Source: Buttkus (2018)

This thesis formulates the following principal research questions:

**1) Does asymmetrical dependency influence the economic and diplomatic engagements between EU member states and China?**

This inquiry scrutinizes the embodiment of asymmetrical dependency theory within the praxis of economic diplomacy between the EU and China, delineating the manner in which the disequilibrium of economic dependence determines the strategic orientations and behavioral modalities of both entities.

**2) Within the paradigm of institutional balancing, how do member states of the EU recalibrate their economic diplomacy strategies vis-à-vis China?**

This probes the operationalisation of institutional balancing theory within the EU's structural

framework, with a particular emphasis on elucidating how the EU leverages its internal mechanisms and policy apparatus to navigate the vicissitudes and prospects inherent in economic cooperation with China.

**3) What distinct characteristics and divergences are manifested in the economic diplomacy strategies of Germany, Italy, and Greece in their interactions with China?**

Through a comparative analysis of the three case studies, this segment seeks to illuminate the distinct economic diplomacy strategies that they employ, predicated on their unique economic landscapes and political narratives, and how these strategies reflect their conceptions and aspirations regarding bilateral relations with China.

**4) What constellation of opportunities and challenges emerge within the economic diplomacy interactions between EU member states and China?**

This segment is dedicated to a critical analysis of the salient opportunities and challenges that punctuate the economic diplomacy endeavors between EU member states and China, contextualized within the prevailing international political-economic milieu, including considerations of economic interests, political-security, and the international regulations.

**5) What prospective trajectories might the economic diplomacy relationship between the EU and China embark upon?**

Predicated on an analytical foundation derived from the current situational analysis, this inquiry contemplates on the potential evolutionary paths and directional vectors of the future economic diplomacy relationship between the EU and China, and elucidates the strategic recalibrations requisite for navigating impending challenges and capitalizing on emergent opportunities.

These research questions guide the thesis towards an exhaustive exploration of the economic diplomatic dynamics between the EU and China amidst a convoluted international arena, aspiring to comprehend and address the fluid complexities of bilateral relations through the prism of asymmetrical dependency and institutional balancing. This endeavor is further enriched by a meticulous comparative analysis of Germany, Italy, and Greece, with the intention to provide a nuanced and granular comprehension of EU-China economic diplomacy interface.

Based on Kydd's theory (Kydd, 2005), it is helpful to deduce testable hypotheses in the core assumptions (Buttkus, 2018: 13):

- 1) In considerations of the economic benefits, the EU, China, and the selected countries face a vague and delicate balance between cooperation and competition.
- 2) Upward-and downward-spiraling of trust and cooperation are possible.
- 3) Actions (events and policies) taken by actors can cause greater effects on perceptions of political and economic benefits than diplomatic parlance.
- 4) Mutual perceptions of trustworthiness could change the policy commitments and develop dynamically during the process of interactions.



### **1.3. Methodologies**

The following methodologies have been applied during implementation of this research:

#### **1) A Comparative Case Study**

The adoption of a comparative case study analysis facilitates an exhaustive and nuanced examination of disparate national strategies and behaviors in economic and diplomatic engagements with China, elucidating the underlying motives and determinants. This approach is instrumental in uncovering both convergencies and divergences, thereby enriching comprehension of the intricate dynamics pervasive in the relationship between EU member states and China.

First, the thesis ascertains the dimensions for comparison, encompassing aspects, such as strategies of economic diplomacy, motivations underpinning participation in international projects, and consequent outcomes. Second, quantitative data are amassed and scrutinized alongside qualitative narratives, which include, but are not limited to, policy documents, economic indices, and insights garnered from expert interviews.

#### **2) Structured and Semi-Structured Interviews**

The utilisation of structured and semi-structured interviews is pivotal in accruing profound insights from an array of stakeholders, including but not limited to policy-makers, academics, and political actor. This method is paramount for decoding the intricate logic undergirding economic diplomacy strategies and decision-making processes.

This thesis formulates an interview schema that meticulously addresses the core aspects of the research. Thereafter, experts within the pertinent domains are identified and engaged for interviews. This is culminated by conducting a systematic analysis of the discourse, distilling primary viewpoints and information relevant to the research questions. The interviews were conducted between February 2024 and September 2024, with a total of 29 interviewees.

#### **3) Data Collection**

Quantitative data analysis enables objective verification concerning economic diplomacy interactions, including facets, such as trade flux, investment magnitude, and economic growth metrics.

This thesis aggregates pertinent macroeconomic data and bilateral economic indicators. It utilises statistical software to undertake analyses, incorporate descriptive statistics, perform trend analyses, etc. These analytical outcomes are integrated with qualitative research findings to offer a holistic analytical overview.

#### **4) Literature Content Analysis**

Engaging in literature content analysis is quintessential for the construction of the study's theoretical construction, facilitating a critical appraisal of extant research findings while identifying research trajectories.

This thesis compiles an extensive collection of scholarly literature, policy expositions, and case study analyses within the relevant spheres. These documents are examined meticulously to distil and synthesise theoretical and empirical advancements in the domain of EU-China economic diplomacy.

## 1.4. Research Framework

This thesis consists of six chapters, including an introduction and a conclusion. In chapter 2, concerning theoretical discussion, it is necessary to focus on deepening and refining the theoretical framework to enhance its support for the study of economic diplomacy interactions between the EU and China. Firstly, the definitions of core concepts, such as asymmetrical dependency, institutional balancing, realism, and comparative advantage, will be clearly articulated, and their applicability to the analysis of the economic relations between the EU and China will be elaborated. Through a critical analysis of these theories, their strengths and shortcomings in explaining the dynamics of bilateral economic diplomacy are revealed, thereby indicating the applicability of existing theories in the context of contemporary international relations and the challenges that they face. Furthermore, the thesis will explore the interactions between different theoretical perspectives, examining how these theories can be integrated or contrasted to provide a more comprehensive analytical framework. Moreover, the connection between theory and practice is an indispensable link, especially in applying theories to specific policy case analyses, such as the BRI and the EU's GG strategy, demonstrating the value of theory in predicting and explaining the economic diplomacy behaviours between the EU and China.

Chapter 3 explores the historical background of the development of economic diplomacy relations between the EU and China. The dissertation adopts a comprehensive and analytical approach to enhance the foundation for a deep understanding of this topic. Initially, a thorough review of the evolution of economic interactions between the EU and China since the establishment of diplomatic relations will be conducted, detailing key moments and decision nodes. By dividing the historical background into clear periods or stages, and providing detailed descriptions of the main characteristics, turning points, and their impact on bilateral relations for each stage, how the relationship between the EU and China has evolved over time can be clearly shown. In addition, a deep examination of key events in each stage will reveal how these events reflect the economic diplomacy strategies of both sides and their impact on the development of relations. The use of economic data and statistics, such as trade volumes, investment flows, and growth rates, can empirically support the analysis, specifically showcasing the characteristics of EU-China economic interactions at different times.

The analysis also considers changes in the global political and economic environment, such as the end of the Cold War, the acceleration of globalisation, and regional conflicts, as well as how these factors have influenced the dynamics of economic diplomacy between the two sides. By integrating diverse perspectives from the EU, China, and third-party observers, this chapter aims to provide a balanced and multidimensional historical narrative.

In Chapter 4, when conducting a comparative analysis of the economic and political forces of the EU and China at the macro level, it is particularly important to adopt an integrated and critical