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European Union-Asia Pacific dialogue: Fostering synergies on global challenges

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R.M. Ricoy-Casas, S.CH. Park

Universidad de Deusto

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1. Libro

Un autor

—Lluís Duch, *Mito, interpretación y cultura* (Barcelona: Herder, 1998), 56-58.

—Duch, *Mito...*, 15.

—Santiago Segura, *Gramática latina* (Bilbao: Universidad de Deusto, 2012), 74-76.

—Segura, *Gramática...*, 75.

Duch, Lluís. *Mito, interpretación y cultura*. Barcelona: Herder, 1998.

Segura, Santiago. *Gramática latina*. Bilbao: Universidad de Deusto, 2012.

Dos autores

—Orfelio G. León e Ignacio Montero, *Diseño de investigaciones: Introducción a la lógica de la investigación en psicología y educación* (Madrid: McGraw-Hill/Interamericana de España, 1993).

León, Orfelio G. e Ignacio Montero. *Diseño de investigaciones: Introducción a la lógica de la investigación en psicología y educación*. Madrid: McGraw-Hill/Interamericana de España, 1993.

Tres autores

—Julio Borrego Nieto, José Jesús Gómez Asencio y Emilio Prieto de los Mozos, *El subjuntivo...*

Borrego Nieto, Julio, José Jesús Gómez Asencio y Emilio Prieto de los Mozos. *El subjuntivo: valores y usos*. Madrid: SGEL.

Cuatro o más autores

En la nota se cita solo el nombre del primer autor, seguido de *et al.* Sin embargo, en la entrada de la bibliografía se citan todos los autores.

—Natalia Ojeda *et al.*, *La predicción del diagnóstico de esquizofrenia...*

—Ojeda *et al.*, *La predicción...*

Editor, traductor o compilador en lugar de autor

—Irene Andrés-Suárez, ed., *Antología del microrrelato español (1906-2011): El cuarto género narrativo* (Madrid: Cátedra, 2012), 15-16.

—Andrés-Suárez, *Antología del microrrelato...*

Andrés-Suárez, Irene, ed. *Antología del microrrelato español (1906-2011): El cuarto género narrativo*. Madrid: Cátedra, 2012.

Editor, traductor o compilador además de autor

—Salvador Fernández Ramírez, *La enseñanza de la gramática y la literatura*. Ed. por José Polo (Madrid: Arco/Libros, 1985), 145-46.

18 Fernández Ramírez, *La enseñanza...*, 33

Fernández Ramírez, Salvador. *La enseñanza de la gramática y la literatura*. Editado por José Polo. Madrid: Arco/Libros, 1985.

Capítulo u otra parte de un libro

—Josefina Gómez Mendoza, «Ecología urbana y paisaje de la ciudad», en *La ciudad del futuro*, ed. por Antonio Bonet Correa (Madrid: Instituto de España, 2009), 177-217.

19 Gómez Mendoza, «Ecología urbana y paisaje de la ciudad», 180.

Gómez Mendoza, Josefina. «Ecología urbana y paisaje de la ciudad». En *La ciudad del futuro*, editado por Antonio Bonet Correa, 177-217. Madrid: Instituto de España, 2009.

Prefacio, prólogo, introducción o parte similar de un libro

—James Rieger, introducción a *Frankenstein; or, The Modern Prometheus*, de Mary Wollstonecraft Shelley (Chicago: University of Chicago Press, 1982), XX-XXI.

—Rieger, introducción, XXXIII.

Rieger, James. Introducción a *Frankenstein; or, The Modern Prometheus*, de Mary Wollstonecraft Shelley, XI-XXXVII. Chicago: University of Chicago Press, 1982.

Libro publicado electrónicamente

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En los libros consultados en línea hay que añadir el URL. Se aconseja incluir también la fecha de acceso. Si no se conocen con exactitud los números de páginas, se puede incluir el título de sección o capítulo u otro dato identificativo.

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—Jane Austen, *Pride and Prejudice* (Nueva York: Penguin Classics, 2008), edición en PDF, cap. 23.

—Austen, *Pride and Prejudice*, cap. 23.

Austen, Jane. *Pride and Prejudice*. Nueva York: Penguin Classics, 2008. Edición en PDF.

Libro consultado en línea

- Salvador Gutiérrez Ordóñez, *Lingüística y semántica: Aproximación funcional* (Oviedo: Universidad de Oviedo, 1981), <http://www.gruposincom.es/publicaciones-de-salvador-gutierrezordonez>.
- Philip B. Kurland y Ralph Lerner, eds., *The Founders' Constitution* (Chicago: University of Chicago Press, 1987), acceso el 28 de febrero de 2010, <http://press-pubs.uchicago.edu/founders/>.
- Gutiérrez Ordóñez, *Lingüística y semántica*.
- Kurland y Lerner, *Founder's Constitution*, cap. 10, doc. 19.

Gutiérrez Ordóñez, Salvador. *Lingüística y semántica: Aproximación funcional*. Oviedo: Universidad de Oviedo, 1981. <http://www.gruposincom.es/publicaciones-de-salvador-gutierrez-ordonez>.

Kurland, Philip B., y Ralph Lerner, eds. *The Founders' Constitution*. Chicago: University of Chicago Press, 1987. Acceso el 28 de febrero de 2010. <http://press-pubs.uchicago.edu/founders/>.

2. Artículo de revista

2.1. Artículo en una revista impresa

Para la nota a pie de página o final de capítulo, si procede, se cita el número concreto de la página consultada. En la bibliografía, se deben indicar los números de comienzo y fin del artículo completo.

- María José Hernández Guerrero, «Presencia y utilización de la traducción en la prensa española», *Meta* 56, n.º 1 (2011): 112-13.
- Hernández Guerrero, «Presencia y utilización de la traducción en la prensa española», 115.

Hernández Guerrero, María José. «Presencia y utilización de la traducción en la prensa española». *Meta* 56, n.º 1 (2011): 101-118.

2.2. Artículo en una revista en línea

- Ángeles Feliu Albadalejo, «La publicidad institucional en la arena parlamentaria española», *Revista Latina de Comunicación Social* 66 (2011): 470, doi:10.4185/RLCS-66-2011-941-454-481.
- Feliu Albadalejo, «La publicidad institucional», 475.

Feliu Albadalejo, Ángeles. «La publicidad institucional en la arena parlamentaria española». *Revista Latina de Comunicación Social* 66 (2011): 454-481. doi:10.4185/RLCS-66-2011-941-454-481.

3. Artículo en periódicos o magazines

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- Sheryl Gay Stolberg y Robert Pear, «Wary Centrists Posing Challenge in Health Care Vote», *New York Times*, 27 de febrero de 2010, acceso el 28 de febrero de 2010, <http://www.nytimes.com/2010/02/28/us/politics/28health.html>.
- Stolberg y Pear, «Wary Centrists...».

Stolberg, Sheryl Gay, y Robert Pear. «Wary Centrists Posing Challenge in Health Care Vote». *New York Times*, 27 de febrero de 2010. Acceso el 28 de febrero de 2010. <http://www.nytimes.com/2010/02/28/us/politics/28health.html>.

4. Reseña del libro

- David Kamp, «Deconstructing Dinner», reseña de *The Omnivore's Dilemma: A Natural History of Four Meals*, de Michael Pollan, *New York Times*, 23 de abril de 2006, Sunday Book Review, <http://www.nytimes.com/2006/04/23/books/review/23kamp.html>.
- Kamp, «Deconstructing Dinner».

Kamp, David. «Deconstructing Dinner». Reseña de *The Omnivore's Dilemma: A Natural History of Four Meals*, de Michael Pollan. *New York Times*, 23 de abril de 2006, Sunday Book Review. <http://www.nytimes.com/2006/04/23/books/review/23kamp.html>.

5. Tesis o tesina

- Francisco José Hernández Rubio, «Los límites del eliminacionismo: Una solución epigenética al problema mente-cerebro» (tesis doctoral, Universidad de Murcia, 2010), 145, <http://hdl.handle.net/10201/17600>.
- Hernández Rubio, «Los límites del eliminacionismo», 130-132.

Hernández Rubio, Francisco José. «Los límites del eliminacionismo: Una solución epigenética al problema mente-cerebro». Tesis doctoral. Universidad de Murcia, 2010. <http://hdl.handle.net/10201/17600>.

6. Documento presentado en conferencias, ponencias, congresos o similares

- Silvia Rodríguez Vázquez, «Flujos de traducción: Herramientas de ayuda a la gestión de proyectos en función de la situación de trabajo» (conferencia, Universidad de Salamanca, 8 de noviembre de 2012).
- Rodríguez Vázquez, «Flujos de traducción».

Rodríguez Vázquez, Silvia. «Flujos de traducción: Herramientas de ayuda a la gestión de proyectos en función de la situación de trabajo». Conferencia pronunciada en la Universidad de Salamanca, 8 de noviembre de 2012.

7. Sitio web

La cita del contenido de un sitio web puede estar frecuentemente limitada a una mención en el texto («El 19 de julio de 2008, la corporación McDonald's mencionaba en su sitio web...») o en una nota. Si se quiere una cita más formal, puede ser del estilo del ejemplo que figura a continuación. Debido a que tal contenido está sujeto a cambios, se debe incluir una fecha de acceso o, si está disponible, la fecha de la última modificación.

—«McDonald's Happy Meal Toy Safety Facts», McDonald's Corporation, acceso el 19 de julio de 2008, <http://www.mcdonalds.com/corp/about/factsheets.html>.

McDonald's Corporation. «McDonald's Happy Meal Toy Safety Facts». Acceso el 19 de julio de 2008. <http://www.mcdonalds.com/corp/about/factsheets.html>.

8. Entrada de blog o comentario

Las entradas de blog o comentarios pueden citarse en el texto («En un comentario publicado en el *Blog de Lengua española* el 13 de marzo de 2012,...») en lugar de en una nota y, generalmente, se omiten en la bibliografía. No es necesario añadir *seud.* después del nombre aparentemente ficticio.

—José Luis Ramírez, 17 de marzo de 2012 (21:28), comentario a Alberto Bustos, «Hacer los deberes», *Blog de Lengua española*, 13 de marzo de 2012, <http://blog.lengua-e.com/2012/hacerlos-deberes/#comments>.

Blog de Lengua española. <http://blog.lengua-e.com/2012/hacer-los-deberes/#comments>.

9. Comunicación personal y entrevista

Las referencias a conversaciones, entrevistas, correos electrónicos, mensajes de texto o similares, normalmente se incluyen en el texto («En conversación telefónica con el autor el 7 de julio de 2010, el líder sindicalista admitió que...») o se dan en nota; raramente se incluyen en la bibliografía:

—Lourdes Díaz, correo electrónico al autor, 15 de mayo de 2011.

—Mike Milanovic (director ejecutivo de Cambridge ESOL), en conversación con el autor, septiembre de 2011.

En lo que se refiere a las entrevistas, sea cual sea su forma, la cita normalmente comienza por el nombre de la persona entrevistada. El entrevistador, en caso de mencionarse, figura en segundo lugar:

—Benjamin Spock, entrevista por Milton J. E. Senn, 20 de noviembre de 1974, entrevista 67A, transcripción, Senn Oral History Collection, National Library of Medicine, Bethesda, MD.

—Spock, entrevista.

10. Obra registrada en bases de datos

Para los documentos localizados mediante bases de datos o repositorios, se indica el nombre de la base de datos y, entre paréntesis, el número de identificación proporcionado o recomendado por la base de datos:

Choi, Mihwa. «Contesting *Imaginaires* in Death Rituals during the Northern Song Dynasty». Tesis doctoral. Universidad de Chicago, 2008. ProQuest (AAT 3300426).

11. Documento legal y jurisprudencia

En los documentos legales y públicos, las menciones a la documentación se hacen generalmente en el cuerpo del texto. En otras materias, especialmente académicas, que usan como fuente documental textos legales y públicos, se mencionan tanto en el cuerpo del texto como en nota.

—Asunto C-38/14, Mr. Jones versus Secretariat of State, Judgment of the Court of 23 June 2015, ECLI:EU:C:2015:222.

Norma jurídica

- Ley 14/2007, de 26 de noviembre, del Patrimonio Histórico de Andalucía (BOJA núm. 248 de 19 de diciembre de 2007).
- Real Decreto 1065/2007, de 27 de julio, por el que se aprueba el Reglamento General de las actuaciones y los procedimientos de gestión e inspección tributaria y de desarrollo de las normas comunes de los procedimientos de aplicación de los tributos (BOE núm. 213 de 5 de septiembre de 2007).
- Reglamento (UE) n.º 492/2011, del Parlamento Europeo y del Consejo, de 5 de abril de 2011, relativo a la libre circulación de trabajadores (DOUE L 241 de 27 de mayo de 2011).

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Presentación

Introduction

Introduction

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Abstract: This special issue of *Deusto Journal of European Studies* includes some of the contributions presented during the International Congress “European Union-Asia Pacific dialogue; fostering synergies on global challenges”, held at the University of Deusto on April 22 and 23, 2021. This event took place within the framework of the activities of the Jean Monnet Network (EUNAP). This European project provides an academic platform to promote mutual knowledge, joint research and multidisciplinary debate on the relations between the European Union and the Asia Pacific region. During the second day of this International Congress, various PhD candidates and young researchers from both regions had the opportunity to present their contributions on the different challenges and perspectives that the interregional dialogue currently faces. This special issue includes five of these contributions made at this event.

Keywords: European Union, Asia Pacific, Indo-Pacific, Road and Belt Initiative, Memorandums of Understanding, transatlantic relationship, strategic autonomy, digital currencies, trade and investments, strategic development, China, ASEAN.

José Luis López-Aranguren, Ph.D. Professor of Public International Law and International Relations at the Faculty of Law of the University of Zaragoza, analyses and assesses the geopolitical importance of the Indo-Pacific region for the European Union (EU). Under the title “The EU’s strategic projection in the Indo-Pacific”, the author highlights the growing importance of this region in economic, demographic and security terms, which has made it a prominent reference in the international order. Despite the increasing relevance of this region and the fact that three of its Member States (France, Germany and the Netherlands) have adopted specific strategies on the Indo-Pacific, the EU has not had its own strategy towards this region until 2021. After analysing the scope of the “Indo-Pacific” concept, the author delves into the analysis of national strategies for the region drawn up by France, Germany and the Netherlands, as well as the

recent strategy adopted by the EU itself, assessing the impact that its implementation may have on the EU's projection and geopolitical role in the region.

Carmen Martínez San Millán, PhD candidate employed by the *Junta de Castilla y León* in the area of Public International Law and International Relations at the University of Valladolid (Spain), begins her article with the analysis of the trade agreements that China is concluding with numerous states, including some EU Member States, within the strategic framework of the so-called "New Silk Road". With the title "The cooperation agreements within the Belt and Road Initiative: the European Common Commercial Policy at crossroads", the author highlights that these cooperation instruments are in practise commercial commitments, despite being called "Memorandums of Understanding". In the case of the EU Member States, such trade engagements raise the problem of their compatibility with the EU law, specifically with the provisions of the common commercial policy, an area of EU's exclusive power. Drawing on these premises, the article delves into these trade agreements with China, while assessing to what extent they undermine the EU's role as a trade actor and are incompatible with EU law.

Antonio José Pagán Sánchez, PhD candidate at Nankai University and at the City University of Hong Kong, delves into the evolving relations between the United States (US), the EU and China over the last decade. Under the title "The rise of China and the US-Europe alliance drift in the 2010s: a lost decade for the European Union?", the author argues that the EU has not been able to define a specific strategy for its relations with China, nor has it aligned itself with US on a common front to face the unstoppable rise of the Asian giant as an economic and geopolitical power. According to the autor, this lack of common policy is evidenced by the EU's position with regard to some of China's relevant geostrategic impulses, such as the Asian Infrastructure Investment Bank, New Silk Road and Huawei's 5G technology. The author concludes, however, that the current commitment of the EU to develop its strategic autonomy in all areas, in a highly uncertain and competitive global context, can provide new geopolitical perspectives to its relations with China.

Rosa María Ricoy-Casas, Lecturer of Political Science at the University of Vigo (Spain), analyses the challenges raised by the growing expansion of cryptocurrencies in trade and economic exchanges. Under the title "Digital currencies: challenges between the United States, the European Union and Asia Pacific", the author highlights the progressive implementation of a cryptocurrency of its own by China. This trend may turn the Chinese cryptocurrency into an alternative to cash, as well as the international payment system led by the UD dollar until now. The New Silk

Road, represented by the “Belt and Road Initiative” could transform the yuan into a digital currency with global reach. Against this background, the author analyses the possibilities that the EU, US and Japan have to counteract the growing competition of the virtual yuan.

Sang Chul Park, Professor at Graduate School of Knowledge based Technology and Energy in the Korea Polytechnic University, discusses the role of the Association of Southeast Asian Nations (ASEAN) in developing the Belt and Road Initiative (BRI), as well as its implications for Europe. Under the title “The roles and strategies of ASEAN in the Belt and Road Initiative (BRI)”, the author highlights how China focuses its interest on ASEAN in the development of the BRI, as it provides a strategic connection bridge between Southeast Asia, the Indian Ocean, the Indochina peninsula and Europe. For the ten ASEAN member countries, the BRI also opens up important perspectives to improve their connectivity through the development of infrastructures and the establishment of joint ventures. In this context, the article delves into the relations between China and ASEAN in the framework of the development of the BRI, while assessing the challenges and the economic and social impact derived from this mutual interaction.

About the autor

Beatriz Pérez de las Heras is Professor of European Union Law and Jean Monnet Chair on European Integration at the University of Deusto (UD). PhD in Law (UD), she accomplished post-graduate studies at the Centre Européen Universitaire de Nancy, where she obtained the DESS and DEA en Droit Communautaire. She was Director of the European Studies Institute at UD from 1996 to 2009, and Vice-Dean for Research and International Relations at Deusto School of Law from 2013 to 2015. She has been a visiting scholar at the US Universities of Oregon (2009), Georgetown (2012), Fordham (2013), Boston College (2014) and Florida International University (2016). She is currently Editor-in-Chief of *Cuadernos Europeos de Deusto Journal* and Main Researcher of the *Integración Europea y Derecho Patrimonial* research team. She is author of several books and scientific articles on European legal issues. Her current research interests are chiefly focused on the European Union (EU)’s climate change and energy policy, democracy and citizenship in the EU, and the role of the EU as an international actor. As of September 2019, she is the Coordinator of the Jean Monnet Network project “European Union-Asia Pacific Dialogue: promoting European Integration and mutual Knowledge across Continents” (EUNAP).

Presentación

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Resumen: Este número monográfico de *Cuadernos Europeos de Deusto* incluye algunas de las contribuciones realizadas durante el Congreso Internacional *European Union-Asia Pacific dialogue: fostering synergies on global challenges*, celebrado en la Universidad de Deusto los días 22 y 23 de abril de 2021. La realización de este evento tuvo lugar en el marco de las actividades del proyecto europeo *Jean Monnet Network (EUNAP)*, que proporciona una plataforma académica para promover el conocimiento mutuo, la investigación conjunta y el debate multidisciplinar sobre las relaciones entre la Unión Europea y la región de Asia Pacífico. Durante la segunda jornada de este Congreso Internacional, diversos doctorandos y jóvenes investigadores de ambas regiones tuvieron ocasión de presentar sus contribuciones sobre los distintos retos y perspectivas que encara actualmente el diálogo interregional. Cinco de estas aportaciones son las que se recogen en formato de artículos en este monográfico.

Palabras clave: Unión Europea, Asia Pacífico, Indo-Pacífico, Iniciativa Franja y Ruta, Memorandos de Entendimiento, relación transatlántica, autonomía estratégica, monedas digitales, comercio e inversiones, desarrollo estratégico, China, ASEAN.

José Luis López-Aranguren, Profesor Doctor de Derecho Internacional Público y Relaciones Internacionales en la Universidad de Zaragoza (España), analiza y valora la importancia geopolítica de la región del Indo-Pacífico para la Unión Europea (UE). Bajo el título «La proyección estratégica de la UE en el Indo-Pacífico», el autor destaca la importancia creciente de esta región en términos económicos, demográficos y de seguridad, lo que la ha convertido en un referente destacado en el orden internacional. A pesar de la creciente relevancia de esta región y de que tres de sus Estados miembros (Francia, Alemania y Holanda) han adoptado estrategias específicas sobre el Indo-Pacífico, la UE no ha contado con una estrategia propia hasta 2021. Después de analizar el alcance del concepto de «Indo-Pacífico», el autor se adentra en el análisis de las estrategias nacio-

nales para la región elaboradas por Francia, Alemania y Holanda, así como en la reciente estrategia trazada por la propia UE, valorando el impacto que su implementación puede tener en la proyección y papel geopolítico de la UE en la región.

Carmen Martínez San Millán, Doctoranda contratada por la Junta de Castilla y León en el área de Derecho Internacional Público y Relaciones Internacionales de la Universidad de Valladolid (España), inicia su análisis en los acuerdos comerciales que está concluyendo China con numerosos Estados, incluidos algunos Estados miembros de la UE, dentro del marco estratégico de la denominada «Nueva Ruta de la Seda». Con el título «Los acuerdos de cooperación en el marco de la nueva ruta de la seda: la política comercial en jaque», la autora destaca que, a pesar de denominarse «Memorandos de Entendimiento», lo cierto es que estos instrumentos de cooperación resultan ser compromisos comerciales que, en el caso de los concluidos por los Estados miembros de la UE, suscitan el problema de su compatibilidad con el Derecho de la Unión Europea y, en concreto, con las disposiciones relativas a la política comercial común, un ámbito de competencia exclusiva de la UE. Partiendo de estas premisas, el artículo se adentra en estos acuerdos comerciales con China, valorando hasta qué punto socavan la capacidad de la UE como actor comercial y resultan incompatibles con el Derecho de la UE.

Antonio José Pagán Sánchez, Doctorando en Relaciones Internacionales en la Universidad de Nankai y en la Universidad de la Ciudad de Hong Kong, se adentra en las relaciones entre Estados Unidos (EEUU), UE y China, analizando su evolución a lo largo de la última década. Bajo el título «El ascenso de China y la deriva de la alianza entre Estados Unidos y Europa en el decenio del 2010: ¿una década perdida para la Unión Europea?», el autor argumenta que la UE no ha sido capaz de definir una estrategia común con respecto a sus relaciones con China, ni tampoco se ha alineado con EEUU en un frente común ante el ascenso imparable del gigante asiático como potencia económica y geopolítica. Esta falta de política común se evidencia, según el autor, en la postura mantenida por la UE con respecto a impulsos geoestratégicos de China tan relevantes como el Banco Asiático de Inversión en Infraestructuras, la Nueva Ruta de la Seda y la tecnología 5G de Huawei. Concluye el autor, no obstante, que la apuesta actual de la UE por desarrollar su autonomía estratégica en todos los ámbitos, en un contexto mundial muy incierto y competitivo, puede proporcionar nuevas perspectivas geopolíticas a sus relaciones con China.

Rosa María Ricoy-Casas, Profesora Doctora de Ciencia Política en la Universidad de Vigo (España), analiza los retos que suscita la expansión creciente de las criptomonedas en el comercio y los intercambios económi-

cos. Con el título «Monedas digitales: desafíos entre Estados Unidos, Unión Europea y Asia Pacífico», la autora destaca especialmente la implantación progresiva por China de su propia criptomoneda, lo que puede convertirla en una alternativa al dinero efectivo y al sistema internacional de pagos liderado por el momento por el dólar norteamericano. La Nueva Ruta de la Seda, representada por la «Iniciativa Franja y Ruta» podría transformar al yuan en una moneda digital de alcance global. En este contexto y con estas perspectivas, la autora analiza las posibilidades que tienen la UE, EEUU y Japón de hacer frente a la competencia creciente del yuan virtual.

Sang Chul Park, Profesor Catedrático en la Facultad de Energía y Tecnología basada en el Conocimiento de la Universidad Politécnica de Corea, aborda el papel de la Asociación de Naciones del Sudeste Asiático (ASEAN, en sus siglas en inglés) en el desarrollo de la Iniciativa Franja y Ruta (IFR), así como sus implicaciones para Europa. Bajo el título «El Papel y las Estrategias de la ASEAN en la Iniciativa Franja y Ruta (IFR)», el autor resalta como en el desarrollo de esta Iniciativa, China centra su interés en la ASEAN como puente de conexión estratégico entre el sudeste asiático, el Océano Índico, la península de Indochina y Europa. Por su parte, para los diez países miembros de la ASEAN, la IFR abre importantes perspectivas para mejorar su conectividad mediante el desarrollo de infraestructuras y la constitución de empresas conjuntas. En este contexto, el artículo se adentra en las relaciones entre China y la ASEAN en el marco del desarrollo de la IFR, valorando los retos y el impacto económico y social derivado de esta interacción mutua.

Sobre la autora

Beatriz Pérez de las Heras es Catedrática de Derecho de la Unión Europea y Titular de la Cátedra Jean Monnet en Integración Europea en la Universidad de Deusto (UD). Doctora en Derecho por la UD, realizó estudios de postgrado en el Centre Européen Universitaire de Nancy, donde obtuvo los diplomas de DESS y DEA en Droit Communautaire. Fue Directora del Instituto de Estudios Europeos de la UD, de 1996 a 2009, así como Vicedecana de Investigación y Relaciones Internacionales en la Facultad de Derecho, de 2013 a 2015. Ha realizado diversas estancias como investigadora visitante en las Universidades americanas de Oregon (2009), Georgetown (2012), Fordham (2013), Boston College (2014) y Florida International University (2016). Actualmente dirige la revista *Cuadernos Europeos de Deusto* y es Investigadora Principal del equipo de investigación «Integración Europea y Derecho Patrimonial». Es autora de numerosas publicaciones sobre cuestiones jurídicas europeas. Sus líneas de investigación

actuales se centran principalmente en la política de cambio climático y de energía de la Unión Europea (UE), democracia y ciudadanía en la UE, y el papel de la UE como actor internacional. Desde septiembre de 2019, es Coordinadora del proyecto «Jean Monnet Network European Union-Asia Pacific Dialogue: promoting European Integration and Mutual Knowledge across Continents» (EUNAP).

Estudios

The EU's strategic projection in the Indo-Pacific

La proyección estratégica de la UE en el Indo-Pacífico

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Summary: I. Introduction.—II. Emergence and evolution of the Indo-Pacific concept.—III. The incentives for a European strategy on Indo-Pacific.—IV. The development of national and European strategies for Indo-Pacific. IV.I. The importance of security in the French approach. IV.II. The multilateralism in the German projection to Indo-Pacific. IV.III. The economic dimension and Netherlands. IV.IV. The EU's geopolitical strategy for the Indo-Pacific.—V. Conclusions.

Abstract: The Indo-Pacific is becoming the new geopolitical axis of the planet for multiple reasons, among which three stand out: security (with six nuclear powers in the area, some of them amidst clearly growing tensions), demography (with 64 percent of the world population) and economy (with 62 percent of world GDP). Since its founding, the European Union has been absent in the development of a strategy for the region, an absence that has recently ended with the publication of national strategies of three member states (France, Germany, and the Netherlands), as well such as the EU announcement of a future EU strategy for the region. This paradigm shift may mark the beginning not only of greater European cohesion in terms of strategic projection, but also of greater European geopolitical assertiveness in a post-COVID-19 world in the Indo-Pacific and other regions. This article will trace the birth and evolution of the Indo-Pacific concept, will identify the reasons for its geostrategic importance for the European Union, and will analyze both the three national strategies of France, Germany, and the Netherlands as well as the announced EU strategy for the region.

Keywords: Indo-Pacific, Europe, geopolitics, security, Free and Open Indo-Pacific (FOIP).

Resumen: *El Indo-Pacífico se está convirtiendo en el nuevo eje geopolítico del planeta por múltiples razones entre las que destacan tres: seguridad (con seis potencias nucleares en la zona, algunas de ellas entre claras tensiones crecientes), demografía (con el 64 por ciento de la población mundial) y economía (con el 62 por ciento del PIB mundial). Desde su fundación, la Unión Europea ha estado*

ausente en el desarrollo de una estrategia para la región, una ausencia a la que se ha puesto fin recientemente con la publicación de estrategias nacionales de tres estados miembros (Francia, Alemania y Países Bajos), así como el anuncio de la UE de una futura estrategia comunitaria para la región. Este cambio de paradigma puede marcar el inicio no solamente de una mayor cohesión europea en materia de proyección estratégica, sino también de una mayor asertividad geopolítica europea en un mundo post-COVID-19. En este artículo se rastreará el nacimiento y la evolución del concepto del Indo-Pacífico, se identificarán las razones de su importancia geoestratégicas para la Unión Europea y se analizarán tanto las tres estrategias nacionales de Francia, Alemania y the Netherlands como la anunciada estrategia de la UE para la región.

Palabras clave: *Indo-Pacífico, Europa, geopolítica, seguridad, Estrategia del Indo-Pacífico Libre y Abierto (FOIP).*

I. Introduction

The Indo-Pacific has emerged in the 21st century as one of the geopolitical centers that will most powerfully determine the future of world politics. This may have been accelerated by the impact of COVID-19, which has temporarily interrupted the global supply chain, passenger transport, and globalizing forces that pointed to an increasingly globalized economy¹. This has led to a decrease in trade dependence on China, pushing the Western powers to devote greater attention to national production capacities and the importance of their predominance in black swan-like scenarios such as this one. This may have enhanced in Europe the need to have its own geopolitical strategy for Asia and the Indo-Pacific. This situation creates an incentive for Western powers, especially European nations, to adopt a greater geopolitical assertiveness in this new global axis. This led three European nations (France, Germany, and the Netherlands) to develop their own strategies for the region and the publication by the European Union of a draft document with the general lines of a future community strategy for this area. This article will analyze the evolution of the Indo-Pacific concept, its geostrategic importance for Europe, the different initiatives offered to date, and the possible future evolution of this European geopolitical projection in the region, as well as its impact on the world.

II. Emergence and evolution of the Indo-Pacific concept

The concept of the Indo-Pacific has evolved from the initial concept of Asia and, later, that of the Asia-Pacific. Asia, as a geopolitical term, responds to a purely geographical concept centered on China, a continental idea devoid of multilateral connotations on the political plane. This concept gave rise in the 1980s to the concept of Asia-Pacific, which was no longer a purely geographical term and incorporated an economic dimension. Likewise, the continental slope incorporated the maritime one and acquired multilateral connotations with the creation of the Asia-Pacific Economic Cooperation (APEC) Forum in 1989, although it excluded India. Finally, in the first decade of the 21st century, this concept evolved to that of the Indo-

¹ Juan Luis López-Aranguren, "Japón y la pandemia del COVID. Análisis comparativo entre Japón y España de la dimensión comunicativa en la lucha contra el COVID-19", en R. Vilarroig (Ed.), *Derecho, Empresa y Administración pública en Japón. Con referencia al tratamiento de la pandemia de la COVID-19 en Japón* (Madrid: Tirant lo Blanch, 2021), 255-276.

Pacific, transforming its original meaning. To the economic dimension of Asia-Pacific, the security dimension was added, and the term became a maritime concept when describing all the nations bathed by these two oceans and marked the birth of the articulation of a new geopolitical axis of the planet. India was included in this concept and its formal crystallization was born with the Quadrilateral Security Dialogue (QUAD) between Japan, the US, Australia, and India.

However, even though the modern use of the Indo-Pacific as a geopolitical concept began in the 21st century, it is possible to trace the first references to this region at the end of the 19th century. It is in this period when the American naval historian and strategist Alfred Thayer Mahan predicted, “whoever dominates the Indian Ocean will dominate Asia and the fate of the world will be decided in its waters”². In 1924, the German geographer and politician Karl Haushofer predicted the arrival of what he called “the Pacific Age”³. In the 1980s, during the legendary meeting between Deng Xiaoping and Indian Prime Minister Rajiv Gandhi, came the declaration by Deng Xiaoping indicating that only when China, India, and other neighboring nations cooperate, one could speak of a “century of Asia-Pacific”⁴. In the 21st century, in 2009, the US Secretary of State Henry Kissinger stated, “one of the most drastic global changes that would take place in this century would be the shift of the center of gravity of international relations from the Atlantic to the Indian Ocean and Pacific”⁵. We can find a common trend here: the seas and oceans are the vectors that allow powers to expand and project their hard or soft power beyond the limitations of their territorial scope. For example, the Mediterranean was not only the bridge of communication and trade of classic civilizations like Greece, Rome, and Phoenicians, but also a space for diplomatic competition and struggle for resources, influence, and expansion of colonies, as described by Thucydides in his Peloponnesian War.

Similarly, the Atlantic Ocean was also the battlefield of a strategic competition projected overseas since the 15th century by the *whales* (maritime European powers, in contrast with the *elephants* or land powers) towards America and West Africa. British geographer scholar Ian

² David Brewster, “An Indian Sphere of Influence in the Indian Ocean?”, *Security Challenges*, Spring 2010, 6(3): 1-20. p. 2.

³ Karl Haushofer, *Geopolitik des pazifischen ozeans* (Berlin: Vowinkel, 1924).

⁴ Deng Xiaoping, *Deng Xiaoping Wenxuan (Selected Works of Deng Xiaoping)*, Vol. 3 (Beijing: Renmin chubanshe (People's Publishing House), 1993), 281.

⁵ Atlantic Council. 2009. “*Transcript: Kissinger's Remarks at 2009 Makins Lecture*”, January 15, 2009, <https://www.atlanticcouncil.org/commentary/transcript/transcript-kissinger-s-remarks-at-2009-makins-lecture/>, Accessed August 1, 2021.

Morris⁶ explained that the geopolitical possibilities of nations reach their maximum scope in the sea: the reason why Europe had become a global power since the 15th century and expanded its civilization throughout the planet was that Europe was a peninsula of peninsulas, and it offered easy access to the sea for any idea, product, military force and revolution that wanted to be exported and imported. The sea has been, hence, an accelerator of social evolution in those civilizations that had the strategic advantage of easy access to it. For this reason, the approach to the future evolution of global dynamics from a maritime perspective rather than a land-based one may be more practical when defining possible future scenarios⁷. Therefore, perhaps it is more appropriate to speak of an Indo-Pacific era rather than a continental Asian century⁸.

III. The incentives for a European strategy on Indo-Pacific

Three dimensions can make the Indo-Pacific become a global axis for the planet and, therefore, Europe has strong incentives to develop its own strategy for the region: security, economic, and demographic.

This region connects the three main economies of the planet (USA, China, and Japan). Together they represent more than 45 percent of world GDP. The fifth-largest economy in the world, India, also participates in this region with a potential for future growth capable of multiplying its size by 2.5 times in the next decade. In addition, there is a deep dependence among these economies that have continued to increase in recent years, interrupted only temporarily by the COVID-19 disruption of the global supply chain networks.

Encompassing all the Indo-Pacific nations, this region involves 38 countries, 44 percent of the world surface, 65 percent of the planet's population (including the two most populated nations on the planet, India and China, with more than 2800 million people in the group) and 62 percent of world GDP⁹. These statistics can help us put in perspective the real weight

⁶ Ian Morris, *Why the West Rules—For Now: The Patterns of History, and What They Reveal About the Future* (New York: Farrar, Straus and Giroux, 2010).

⁷ Juan Luis López-Aranguren, "Las dimensiones geopolítica y comunicativa de la disputa por las islas Senkaku/Diaoyu a través de la historia", in Carmen Tirado (Ed.), *El agua en Japón. Una aproximación jurídica y social* (Valencia: Tirant lo Blanch, 2018: 205-250).

⁸ Juan Luis López-Aranguren. "El Indo-Pacífico como nuevo eje geopolítico global", *Global Affairs* 3 (2021): 6-11. <https://www.unav.edu/documents/16800098/0/Global+Affairs+Journal+3rd+Edition.pdf>

⁹ Rahman, Mohamad Masudur Rahman, Chanwahn Kim & Prabir De, "Indo-Pacific cooperation: what do trade simulations indicate?", *Economic Structures* 9(45) (2020): 2. <https://doi.org/10.1186/s40008-020-00222-4>

the region has on the dynamics of international relations and that its importance will continue to increase due to unavoidable demographic and economic factors.

Moreover, in terms of the geopolitical dimension, the Indo-Pacific, in its widest geographical expanse, encompasses five recognized nuclear powers: the US, Russia, China, India, and Pakistan. North Korea should be added to this list, except for operational doubts raised about its nuclear program. All the three generations of nuclear powers (original post-World War II states, the new regional powers in the 90s, and *rogue states* of the millennium) are present in this scenario.

This enormous diversity of nuclear-capable actors, each with a very different sphere of influence and political objectives, greatly increases the complexity of interactions in this region of the planet and raises the cost of any friction between them. In June 2020, twenty Indian soldiers died in a confrontation with Chinese troops in Ladakh, on the disputed border between these two nations¹⁰. In November of the same year, five soldiers and ten civilians were killed in clashes between Indian and Pakistani troops¹¹. In addition, in December, Pakistan and China began joint *Shaheen* ("Eagle") - IX military air exercises in Sindh province, intensifying pressure on India¹².

In the same way as the rest of the actors in the region, India has been compelled to adopt a more assertive attitude given the escalation of tensions in the area. This has included the launch of the informal strategic collaboration project between India, Japan, the USA, and Australia called the *Quadrilateral Security Dialogue* or simply QUAD¹³. This initiative, which has been described as "Asian NATO"¹⁴, was launched in 2007 but only had a few months of running in its first attempt before being paralyzed by three main factors¹⁵. First, China held the Beijing Olympic Games and

¹⁰ Aman Dwivedi, "Highlights: 20 Indian Soldiers Killed; 43 Chinese Casualties In Ladakh", *NDT*, June 17, 2020, <https://www.ndtv.com/india-news/india-china-updates-army-officer-2-soldiers-killed-in-violent-face-off-with-china-in-ladakh-2247070>, Accessed August 1, 2021.

¹¹ Al Jazeera, "India, Pakistan report deadly violence along Kashmir border", 2020, November 13, <https://www.aljazeera.com/news/2020/11/13/pakistan-summons-top-indian-diplomat-over-kashmir-violence>

¹² Ananth Krishnan, "China tells India to look at Pakistan military exercises 'objectively'", *The Hindu*, 2020, December 21, <https://www.thehindu.com/news/international/take-an-objective-view-on-chinese-pakistan-air-force-drills-china-tells-india/article33385259.ece>

¹³ Tavin Madan, "The Rise, Fall, and Rebirth of the 'Quad'", *War on the rocks*, 2017, November 16, <https://warontherocks.com/2017/11/rise-fall-rebirth-quad/>

¹⁴ Brahma Chellaney, The Quad: Asia's Own NATO?, *The ASEAN Post*, 2020, October 19, <https://theaseanpost.com/article/quad-asias-own-nato>

¹⁵ Rachel Zhang, "Could a US-led Quad add up to an Asian Nato against China?", *South China Morning Post*, 2020, December 25, <https://www.scmp.com/news/china/diplomacy/article/3115262/could-us-led-quad-add-asian-nato-against-china>, Accessed August 1, 2021.

maximized its international projection through soft power¹⁶ and public diplomacy¹⁷. Second, at the end of 2007, the coming to power of Yasuo Fukuda, Prime Minister of Japan, replacing Shinzo Abe, implied the beginning of a diplomatic rapprochement with Beijing and the adoption of more conciliatory measures during his brief mandate that barely lasted a few months¹⁸. Third, Indian Prime Minister Manmohan Singh joined in this trend and, on a visit to China in January 2008, declared that India-China relations were a priority¹⁹. Most importantly, the QUAD did not take off because Australia was very wary of displeasing Beijing and withdrew from it.

However, the collaboration between the four QUAD nations continued in other formats, including in 2012 with the deployment of US Marines to Darwin, near the Lombok Strait²⁰, and most importantly, the Malabar naval military exercises, which originally began as a bilateral US-India collaboration in 1992²¹. The 2020 edition of the Malabar exercises saw the participation of Australia, which has meant that it has been the first time in 13 years that all members of the QUAD group have participated in these military maneuvers together²².

This security dimension of the QUAD led Japan to launch the idea of the *Free and Open Indo-Pacific* (FOIP) Strategy in 2016. Japan changed the usage of the term “strategy” into “vision” in 2018. This concept had initially germinated in the margins of Japanese and American political

¹⁶ Japan, one of the members of the Quad group, has also maximized its global communicative projection employing the so-called Olympic diplomacy. Juan Luis López-Aranguren, “La diplomacia olímpica de Japón: De Tokio 1964 a Tokio 2021”, *Mirai. Estudios Japoneses* 5, 2021, 67-76. Doi: <https://dx.doi.org/10.5209/mira.74697>

¹⁷ Yu Wai Li, “Public Diplomacy Strategies of the 2008 Beijing Olympics and the 2012 London Olympics: A Comparative Study”, *The International Journal of the History of Sport* 30(15) *London 2012: Prism for East Asian Political Preoccupations*, 2013:1723-1734. <https://doi.org/10.1080/09523367.2013.790374>

¹⁸ Ministry of Foreign Affairs (MOFA), Japan, “Forging the Future Together. Speech by H.E. Mr. Yasuo Fukuda, Prime Minister of Japan at Peking University, Beijing, People’s Republic of China”, 2007, December 28, <https://www.mofa.go.jp/region/asia-paci/china/speech0712.html>

¹⁹ Ministry of External Affairs (MEA), India, “Visit of Prime Minister Dr. Manmohan Singh to China”, January 13-15, 2008”, 2008, January 13-15 <https://mea.gov.in/outgoing-visit-info.htm?2/105/Visit+of+Prime+Minister+Dr+Manmohan+Singh+to+China+January+1315+2008>

²⁰ Matt Siegel, “As Part of Pact, U.S. Marines Arrive in Australia, in China’s Strategic Backyard”, *The New York Times*, 2012, April 4, <https://www.nytimes.com/2012/04/05/world/asia/us-marines-arrive-darwin-australia.html>

²¹ Gurpreet S. Khurana, “Joint Naval Exercises: A Post-Malabar-2007 Appraisal for India”, *Institute of Peace and Conflict Studies* 52, 2007, September 1.

²² Indian Navy, “Phase 2 of Exercise Malabar 2020 in Western Indian Ocean”, 2020, <https://www.indiannavy.nic.in/content/phase-2-exercise-malabar-2020-western-indian-ocean>, Accessed August 1, 2021.

spheres, each with different nuances and interpretations until it impregnated much of the communicative and diplomatic interactions of both nations²³ in the region²⁴. The US State Department formalized the concept in 2019²⁵ and since then, it has become popular worldwide, influencing other nations to incorporate the concept in their strategic policies²⁶.

This Indo-Pacific initiative is part of Japan's need to encourage its assertiveness in security matters, a need that has also generated proposals to reform its intelligence services²⁷, improve the intelligence sharing with South Korea²⁸, adapt its legislation to its external security needs²⁹, and face new threats like terrorism³⁰.

The two key strategies of the FOIP are reflected in the term itself, indicating the intention to maintain this key region of the world as *free* and *open*. This first concept of *freedom* is understood in two different ways. In the first place, as the American security adviser Herbert R. McMaster explained, "freedom of navigation, overflight, rule of law, sovereignty, freedom from coercion and freedom of business and market"³¹. This could also be taken to understand freedom as democratic nations. Indistinctly, one and the other interpretation are closely related.

²³ Abhijit Singh, "The Nautical Dimension of India's "Act East" Policy", S. Rajaratnam School of International Studies (RSIS), 2018, April 1.

²⁴ Emma Chanlett-Avery, "Japan, the Indo-Pacific, and the "Quad", *Chicago Council of Global Affairs*, 2018, February 1.

²⁵ Department of State, United States. *A Free and Open Indo-Pacific. Advancing a Shared Vision*, 2019, November 4, <https://www.state.gov/wp-content/uploads/2019/11/Free-and-Open-Indo-Pacific-4Nov2019.pdf>, Accessed August 1, 2021.

²⁶ Wada Haruko, "The "Indo-Pacific" Concept: Geographical Adjustments and their Implications", *RSIS Working Paper 326*, S. Rajaratnam School of International Studies (RSIS), 2020, March 16.

²⁷ Juan Luis López-Aranguren, "The Communicative Dimension and Security in Asia-Pacific: A communicative-viewing proposal for reform of the Japanese Intelligence Services", *UNISCI Discussion Papers 41*, 2016: 29-52. doi:10.5209/rev_UNI.2016.n41.52673

²⁸ Juan Luis López-Aranguren, "Seoul and Tokyo's new security axis: If you want peace... share intelligence", *Asia and The Pacific Policy Society Forum*, December 9, 2017. <https://www.policyforum.net/seoul-tokyos-new-security-axis/>, Accessed on: August 1, 2021.

²⁹ Carmen Tirado, "Las recientes reformas legislativas en materia de política exterior y seguridad en Japón", *Política exterior de Japón 3*, 2019: 69-86.

³⁰ Juan Luis López-Aranguren, "Gas sarín, sectas y propaganda en Japón: El conflicto entre libertad de expresión, religión y seguridad a raíz de los ataques de Aum Shinrikyō", in Zoila Combalia, M.^a del Pilar Diago and Alejandro González-Varas (Eds.) *Libertad de expresión y discurso de odio por motivos religiosos*, Zaragoza: LICREGDI, 2019: 149-219, <https://dialnet.unirioja.es/descarga/libro/744767.pdf>

³¹ James Laurenceson, Freedom and openness in the Asia Pacific free and open for interpretation, *East Asia Forum*, 2017, November 14, <https://www.eastasiaforum.org/2017/11/14/freedom-and-openness-in-the-asia-pacific-free-and-open-for-interpretation/>, Accessed August 1, 2021.

The second concept of *openness* could also be interpreted in two different ways. In the first place, as an Indo-Pacific open to all the nations of the globe, without excluding anyone from its use or participation in the institutional construction of its political architecture. Second, as an Indo-Pacific open to expansion to new dimensions beyond just security and the economy, and inclusive of education, development, culture, environmental protection³², public health, and communication³³ (a dimension in which Japan³⁴ is considered a global superpower) leading to the enhancement of its competitiveness and innovation³⁵ maintaining its cultural identity³⁶.

This *Free and Open Indo-Pacific (FOIP) strategy*, however, is still in a very early phase of the definition and each nation interprets it in its own way. As mentioned before, Japan³⁷ changed its stance and began to describe the FOIP as a vision and not a strategy in 2018. This is believed to have been done to accommodate the concerns of the Association of Southeast Asian Nations (ASEAN) who did not want to choose between the US and China³⁸. The change also coincided with a period of warming of relations between China and Japan³⁹. The US, for its part, displayed an erratic foreign policy during the Trump administration in which the start of a trade war with

³² The environmental protection is one of the top contributions of Europe to international law. Steffen Bay Rasmussen, "Presentation", *Cuadernos Europeos De Deusto* 64. *A sustainable Europe: Society, Politics and Culture in the Anthropocene*, May 2021: 19-22. <https://doi.org/10.18543/ced-64-2021pp19-22>

³³ Juan Luis López-Aranguren, "Rational Choice Theory and International Communication: A Proposal for a New Interpretation of Article 21 of the Japanese Constitution", *Osaka University Law Review* 64 (2017):111-134. <https://ir.library.osaka-u.ac.jp/repo/ouka/all/59680/oulr064-111.pdf>

³⁴ Juan Luis López-Aranguren, "De los panfletos de mayo de 1968 a los foros digitales del siglo XXI: Oportunidades y desafíos de la comunicación internacional en la articulación global de los movimientos sociales", in E. Postigo (Coord.), *Mayo del 68. Una época de cambios, un cambio de época*, Vol. II (Madrid: Editorial Universidad Francisco de Vitoria, 2019), 13-22.

³⁵ Juan Luis López-Aranguren, "El glocalismo como herramienta para potenciar la creatividad y la innovación de Japón en un mundo globalizado", *MIRAI. Estudios Japoneses* 4 (2020): 11-22. <http://dx.doi.org/10.5209/mira.67540>

³⁶ Juan Luis López-Aranguren, "Del Tatte Shakai a las particularidades culturales y comunicativas de la sociedad nipona: desafíos de la investigación en CCSS en Japón", in Carmen Tirado and Francisco Barberan (Eds.), *Derecho y relaciones internacionales en Japón: Desde el Tratado de Amistad, Comercio y Navegación de 1868* (Zaragoza: Prensas de la Universidad de Zaragoza, 2019), 273-304.

³⁷ Ministry of Foreign Affairs (MOFA), Japan, "What is Free and Open Indo-Pacific?", 2021, February 1, https://www.mofa.go.jp/policy/page25e_000278.html, Accessed on: August 1, 2021.

³⁸ Celine Pajon, "Japan's Indo-Pacific Strategy: Shaping a Hybrid Regional Order", 2019, December 18, <https://warontherocks.com/2019/12/japans-indo-pacific-strategy-shaping-a-hybrid-regional-order/>

³⁹ Yoshihide Soeya, "Japan and the Indo-Pacific: from strategy to vision", ASPI, 2020, January 22, <https://www.aspistrategist.org.au/japan-and-the-indo-pacific-from-strategy-to-vision/>

China⁴⁰ was combined with speculation of a possible withdrawal of US troops from Okinawa⁴¹. This would have left Japan in a very delicate position since Article 9 of its Constitution⁴² that denies the right to war and the possession of armed forces has not been modified (something that has been determined by both Japan's foreign policy and its internal political dynamics)⁴³. It is true that in 2014 a new and revolutionary constitutional interpretation of this article was made, expanding Japan's room for maneuver in defending its territorial integrity and autonomy⁴⁴. However, the erratic announcements regarding collective security with the United States introduce a very high uncertainty factor, even if it was meant merely as a domestic political stunt aimed at taxpayers. This situation is aggravated due to the escalation of frictions with China over the Senkaku / Diaoyu islands⁴⁵.

Australia, for its part, has been reluctant longer than its allies to adopt a position that could provoke China, which has consequently delayed its full participation in these activities. However, as described above, its recent return to the Malabar Naval Exercises in 2020 marks a change in the Australian approach reflecting a move to a more assertive stance.

India, the country with the largest continental territorial dispute with China and the only country that has had a war with China in the second half of the twentieth century, has been found paradoxically limited in its power projection in the Indo-Pacific due to the need to concentrate resources on responding to continental threats⁴⁶. Indian Prime Minister Narendra Modi,

⁴⁰ BBC, "A quick guide to the US-China trade war", 2020, January 16, <https://www.bbc.com/news/business-45899310>, Accessed August 1, 2021.

⁴¹ Bloomberg, "Trump Muses Privately About Ending Postwar Japan Defense Pact", 2019, June 25, <https://www.bloomberg.com/news/articles/2019-06-25/trump-muses-privately-about-ending-postwar-japan-defense-pact>, Accessed August 1, 2021.

⁴² Prime Minister of Japan and His Cabinet, Japan, *The Constitution of Japan*. 1946, https://japan.kantei.go.jp/constitution_and_government_of_japan/constitution_e.html, Accessed August 1, 2021.

⁴³ Juan Luis López-Aranguren, "De los panfletos de mayo de 1968 a los foros digitales del siglo XXI: Oportunidades y desafíos de la comunicación internacional en la articulación global de los movimientos sociales", en E. Postigo (Coord.), *Mayo del 68. Una época de cambios, un cambio de época*, Vol. II (Madrid: Editorial Universidad Francisco de Vitoria, 2019), 13-22.

⁴⁴ Linda Sieg, L. & Kiyoshi Takenaka, "Japan takes historic step from post-war pacifism, OKs fighting for allies", *Reuters*, 2014, July 1, <https://www.reuters.com/article/us-japan-defense-idUSKBN0F52S120140701>, Accessed August 1, 2021.

⁴⁵ Juan Luis López-Aranguren, "Las dimensiones geopolítica y comunicativa de la disputa por las islas Senkaku/Diaoyu a través de la historia", in Carmen Tirado (Ed.), *El agua en Japón. Una aproximación jurídica y social* (Valencia: Tirant lo Blanch, 2018), 205-250.

⁴⁶ Arzan Tarapore, "The Army in Indian Military Strategy: Rethink Doctrine or Risk Irrelevance", *Carnegie India*, 2020, August 10, <https://carnegieindia.org/2020/08/10/army-in-indian-military-strategy-rethink-doctrine-or-risk-irrelevance-pub-82426>, Accessed August 1, 2021.

who has been compared to Shinzo Abe in his views on this region, has been trying⁴⁷ to change this⁴⁸, although other analysts have highlighted the important differences⁴⁹ between the two⁵⁰. Modi's strategy is not, in any case, an easy path: there are numerous internal and external risks and obstacles when it comes to adopting a more assertive attitude. Among them, we can highlight the serious internal economic and development challenges that India has to face, which may pose a serious risk of instability if it embarks on an external military escalation⁵¹.

The Indo-Pacific future depends, therefore, on a large number of both domestic and international variables that are changing constantly and that should be analyzed carefully by policymakers. Therefore, it is not surprising that the first steps of this new collaboration of the *Free and Open Indo-Pacific Strategy* have been centered on projects creating infrastructure and support for development. For example, the construction of subway systems in many Indian cities like Delhi, Mumbai, and Chennai by Japanese companies and with French participation⁵², which reinforces EU-Japan cooperation⁵³ and generates a big incentive for the European Union to acknowledge the challenges in the security dimension if the EU wants to

⁴⁷ Malini Goyal, M. & Dipanjan Roy Chaudhury, "Will economic empathy shared by Narendra Modi and Shinzo Abe enable Japan to play key role in India's growth?", *The Economic Times*, 2014, June 1, <https://economictimes.indiatimes.com/news/economy/indicators/will-economic-empathy-shared-by-narendra-modi-and-shinzo-abe-enable-japan-to-play-key-role-in-indias-growth/articleshow/35852162>, Accessed August 1, 2021.

⁴⁸ Nyshka Chandran, "There's more to Modi-Abe ties than China", *CNBC*, 2014, September 2, <https://www.cnbc.com/2014/09/02/why-the-modi-abe-bromance-isnt-just-about-china.html>, Accessed August 1, 2021.

⁴⁹ Dhara Ranasinghe, "Why Abenomics and Modinomics are poles apart", *CNBC*, 2014, June 25, <https://www.cnbc.com/2014/06/25/why-abenomics-and-modinomics-are-poles-apart.html>

⁵⁰ Jeffrey W. Hornung, & Shyam Tekwany, "Modi is NOT India's Shinzo Abe", *The Diplomat*, <https://thediplomat.com/2014/05/modi-is-not-indias-shinzo-abe/>, 2014, May 27, Accessed August 1, 2021.

⁵¹ Shahana Thankachan, "Japan's Security, Export Control and Arms Export Policy: Prospects for India-Japan Defence Cooperation", *Delhi Policy Group Vol. V(37)*, 2020, October 17, https://www.delhipolicygroup.org/uploads_dpg/publication_file/japans-security-export-control-and-arms-export-policy-prospects-for-india-japan-defence-cooperation-2085.pdf

⁵² Medium "Japan and France join India on the country's first high-speed rail connection", 2020, August 1, <https://medium.com/tripetta-india/japan-and-france-join-india-on-the-countrys-first-high-speed-rail-connection-4280350f5eb1>, Accessed August 1, 2021.

⁵³ Ana Gascón, "Society 5.0: EU-Japanese cooperation and the opportunities and challenges posed by the data economy", ARI 11/2020, Real Instituto Elcano, 2020, February 4, http://www.realinstitutoelcano.org/wps/portal/rielcano_en/contenido?WCM_GLOBAL_CONTEXT=/elcano/elcano_in/zonas_in/asia-pacific/ari11-2020-gascon-society-5-0-eu-japanese-cooperation-and-opportunities-and-challenges-posed-by-data-economy, Accessed August 1, 2021.

become a global supporter of global stability⁵⁴. From a diplomatic point of view, this collaboration was highlighted by the Japanese Ambassador to India, Kenji Hiramatsu, as the first step in future Japanese infrastructure development projects in India⁵⁵.

IV. The development of national and European strategies for Indo-Pacific

Despite the geopolitical importance of the Indo-Pacific, the European Union, as a supranational entity, did not announce a defined strategy for the Indo-Pacific until March 2021. Only three countries (France, Germany, and the Netherlands) have so far produced national official documents in which they develop a strategy on this area. The rest of the members of the European Union do not have any domestic strategy to date.

In this section, we will analyze these four European geopolitical approaches to the Indo-Pacific: the pioneering approach of France, the approach of Germany, and the approach of the Netherlands, and, finally, the announced future geopolitical strategy of the EU for the Indo-Pacific.

IV.I. *The importance of security in the French approach*

France has been the pioneer nation in Europe in offering a national approach to the Indo-Pacific, something it did in 2019 by publishing its strategic document entitled “France and Security in the Indo-Pacific”⁵⁶. It should be noted that, due to its overseas departments Mayotte and La Réunion, France is formally an Indo-Pacific nation. This was highlighted in its 2019 document where it indicated that 1.6 million French citizens lived in French overseas departments and territories, 200,000 French Nationals live in the Indo-Pacific states and the region encompassed 465,422 km² and

⁵⁴ Pablo Antonio Fernández Sánchez, “Presentación”, *Cuadernos Europeos de Deusto* 57. *La contribución de la Unión Europea a los grandes desafíos de la sociedad internacional*, October 2017: 17-25. <https://doi.org/10.18543/ced-57-2017pp17-25>

⁵⁵ Business Standard, “Japan’s involvement in Delhi Metro underlines close ties with India”, December 3, 2018, Accessed on on: August 1, 2021, https://www.business-standard.com/article/news-ani/japan-s-involvement-in-delhi-metro-underlines-close-ties-with-india-118123100659_1.html,

⁵⁶ Ministère des Armées, France. *France and Security in the Indo-Pacific*, 2019, 1, <https://www.defense.gouv.fr/layout/set/print/content/download/532754/9176250/version/3/file/France+and+Security+in+the+Indo-Pacific+-+2019.pdf>

93 percent of its Exclusive Economic Zone^{57,58}. In this way, France has become one of the pillars of Europe's geopolitical projection in the Indo-Pacific⁵⁹.

Additionally, in a new strategic move in which it limits China's international projection, France has declared India as its preferred partner in Asia⁶⁰, thus displacing the weight that China could have in this international architecture in general and in the European Union in particular. France's approach focused on security, both in the face of traditional threats and in the face of new climatic threats, natural disasters, etc. This is evidenced by the fact that the institution that has produced this strategic document is the Ministry of Defense⁶¹. France highlights the importance of the Indo-Pacific for Europe and itself and announces its commitment to this area of the planet with the following words in this strategic document⁶²:

“France pays particular attention to the Indo-Pacific region. Its stability is paramount for international security, as stated in the 2017 Defence and National Security Strategic Review. In the Indo-Pacific area, North Korea challenges the international community by conducting nuclear trials and ballistic missile tests, thereby breaching the resolutions of the United Nations Security Council. The military assertiveness of a growing number of established or emerging powers presents many challenges to multilateralism and increases the instability and unpredictability we are confronted with. Terrorism, which has severely struck Europe over the last few years, is reshaping and spreading to the Indo-Pacific. This worrying evolution requires a joint mobilisation of the international community.

The maritime domain remains an area of tensions due to the challenging behaviour of some States with regards to United Nations Convention on the Law of the Sea and the persistence of acts of piracy. Finally, the effects of climate change and environmental degradations represent a major issue in the Indo-Pacific, and as far as in the Antarctic,

⁵⁷ Ministère des Armées, France. *France and Security in the Indo-Pacific*.

⁵⁸ Ministère de L'Europe et des Affaires Étrangères, France. *French Strategy in the Indo-Pacific “For an Inclusive Indo-Pacific”*, 2019, <https://www.diplomatie.gouv.fr/en/country-files/asia-and-oceania/the-indo-pacific-region-a-priority-for-france/>

⁵⁹ Frederic Grare, “France, the Other Indo-Pacific Power, Carnegie Endowment for International Peace”, 2020, October 21, <https://carnegieendowment.org/2020/10/21/france-other-indo-pacific-power-pub-83000>, Accessed August 1, 2021.

⁶⁰ The Hindustan Times, “France describes India as foremost Asian strategic partner”, 2020, September 9, <https://www.hindustantimes.com/india-news/france-describes-india-as-foremost-asian-strategic-partner/story-rJmsUIWze24pfh3Ekip7yL.html>, Accessed August 1, 2021.

⁶¹ Ministère des Armées, France. *France and Security in the Indo-Pacific*.

⁶² *Ibidem*.

exacerbating security risks. These major challenges can only be overcome through cooperation.

Upholding stability in the Indo-Pacific, which is a source of overall prosperity thanks to its economic dynamism, demographic growth, and technological innovation, is essential. This has to be set within the framework of an international order based on dialogue and the respect of multilaterally set rules.”

The geopolitical importance of this region for France is reflected in the economic data that this document provides⁶³: France exported 66.44 billion euros to the Indo-Pacific in 2018, excluding defense equipment, which is equivalent to 34 percent of all exports outside the European Union and 14 percent in total. Similarly, France has imported 95.93 billion euros from the Indo-Pacific (also excluding defense equipment). To protect this area, France has deployed 7,000 military personnel throughout the Indo-Pacific, 2,900 in the Pacific Ocean, and 4,100 in the Indian Ocean. France has divided its military forces into five joint regional commands as follows⁶⁴: Commander of the French Armed Forces in the South of the Indian Ocean (COMSUP FAZSOI), in New Caledonia (COMSUP FANC), in French Polynesia, and the Pacific Ocean (COMSUP FAPF / ALPACI), in the UAE and the Indian Ocean (FFEAU / ALINDIEN), and in Djibouti (FFDJ), where China opened its first Naval Base overseas in 2017 and it's a vital bottleneck for EU's economy since it allows access to the Red Sea.

Regarding the number of French nationals in overseas departments located in the Indo-Pacific⁶⁵, the document indicates that the most populated region is the one formed by the islands of Mayotte, Réunion, and Scattered Islands, with 1,100,000 inhabitants, followed by New Caledonia (282,000 pop.), French Polynesia (276,000 pop.), and the remaining regions with hardly any permanent population. Similarly, France has nationals in other Indo-Pacific nations: more than 30,000 in China and Australia (each); between 10,000 and 30,000 in Japan, Thailand, India, Bhutan, New Zealand, and Madagascar; between 3,000 and 10,000 in Vietnam, Cambodia, Malaysia, South Korea, the Philippines, Brunei, Indonesia, and East Timor; and less than 3,000 in the remaining countries. France also details the specific security risks in the Indo-Pacific⁶⁶:

“The 2017 French Strategic Review emphasises the rapid and intense evolution of the threats identified in the 2013 White Paper: terrorism, the

⁶³ *Ibidem*, 2.

⁶⁴ *Ibidem*, 6.

⁶⁵ *Ibidem*, 3.

⁶⁶ *Ibidem*, 4.

worrying return of rivalry and power assertiveness, the weakening of the rule of law and multilateralism as well as the increase of unconventional challenges.

North Korea's ballistic and nuclear programs do not only threaten Northeast Asian stability but also the international order and the non-proliferation regime. In the South China Sea, the large-scale land reclamation activities and the militarisation of contested archipelagos have changed the status quo and increased tensions. The potential consequences of this crisis have a global impact considering that one third of the world trade transits through this strategic region. Such a case highlights how multilateralism is questioned by assertive policies which are threatening the stability of the whole region.

Terrorism is another challenge. The end of Daech does not mean the end of this global threat due to Foreign Fighters returning home and the spread of terrorism to new regions such as South Asia and South-East Asia. Scientific and technological breakthroughs are bringing in new opportunities, but also new risks. There is little doubt that accessibility to deep underwater resources, the expansion of power projection and, in parallel, of anti-access / area denial capabilities, and the centrality of cyberspace and satellite equipment, are going to exacerbate rivalries between States in the Indo-Pacific.

Facing those challenges, France is developing a network of strategic partnerships in the Indo-Pacific with countries such as India, Australia, Japan, Malaysia, Singapore, New Zealand, Indonesia and Vietnam. To deal with those risks and tensions, France supports and wishes to contribute to the building of a regional security architecture.”

France also collaborates with the regional centers dedicated to the surveillance of maritime spaces and sea-lanes of communication of the Indo-Pacific. Three French officers contribute to these goals within the Information Fusion Center-Indian Ocean Region (IFC-IOR) located in New Delhi; the Information Fusion Center of Singapore (IFC), and the Regional Center for the Fusion of Maritime Information (CRFIM) located in Madagascar.

Arms cooperation with Indo-Pacific nations also plays a vital role in the role that France plays in the security of this region⁶⁷, India and France, for example, had arms trade worth 13,184 million euros in the period 2008-2017.

IV.II. *The multilateralism in the German projection to Indo-Pacific*

The second European country in developing a national strategy for the Indo-Pacific was Germany with a more multi-dimensional approach.

⁶⁷ *Ibidem*, 17.

Germany published its new policy for the region on September 1, 2020, in a 70-page document titled “Policy guidelines for the Indo-Pacific”⁶⁸. In it, Germany has emphasized the need for multilateralism when addressing the challenges in the Indo-Pacific, while urging North Atlantic Treaty Organization (NATO) to expand its agreements with Japan and South Korea. Likewise, it highlighted the need to support rules and not powers when defining the dynamics of this area, issuing a veiled warning to the Chinese negotiating strategy of relying on bilateralism for the expansion of its global influence⁶⁹. This view has been condensed in the statements of the German Foreign Minister Heiko Maas stating,

“Our prosperity and our geopolitical influence in the coming decades will depend on how we work together with the countries of the Indo-Pacific region. That, more than anywhere else, is where the shape of the international rules-based order of tomorrow will be decided. We want to help shape that order - so that it is based on rules and international cooperation, not on the law of the strong”⁷⁰.

Germany's strategy is based on seven pillars⁷¹: 1) Strengthening multilateralism; 2) Tackling climate change and protecting the environment; 3) Strengthening peace, security, and stability; 4) Promoting human rights and the rule of law; 5) Strengthening rules-based, fair and sustainable free trade; 6) Rules-based networking and the digital transformation of regions and markets; 7) Bringing people together through culture, education, and science.

Germany seeks to achieve eight goals⁷²: 1) Peace and security; 2) Diversifying and deepening relations; 3) Neither unipolar nor bipolar; 4) Open shipping routes; 5) Open markets and free trades; 6) Digital transformation and connectivity; 7) Protecting our planet; 8) Access to fact-based information. Germany relies on seven principles that guide its strategy in the

⁶⁸ Federal Foreign Office, Germany, “Germany-Europe-Asia: shaping the 21st century together”: The German Government adopts policy guidelines on the Indo-Pacific region, 2020, September 1, <https://www.auswaertiges-amt.de/en/aussenpolitik/regionaleschwerpunkte/asien/german-government-policy-guidelines-indo-pacific/2380510>

⁶⁹ Frederic Grare, “Germany's New Approach to the Indo-Pacific, Carnegie Endowment for International Peace”, *Carnegie Endowment for International Peace, Internationale Politik Quarterly*, 2020, October 15:1, <https://carnegieendowment.org/2020/10/15/germany-s-new-approach-to-indo-pacific-pub-82978>

⁷⁰ Federal Foreign Office, Germany, “*Germany-Europe-Asia: shaping the 21st century together*”: *The German Government adopts policy guidelines on the Indo-Pacific region*.

⁷¹ *Ibidem*, 5.

⁷² *Ibidem*, 9-10.

Indo-Pacific to achieve these goals⁷³: 1) Promote coordinated European action (based on the EU Global Strategy 2016); 2) Bet on multilateralism by strengthening economic, political, and security ties with Indo-Pacific nations; 3) Support an Indo-Pacific based on rules-based order; 4) Incorporate the 17 Sustainable Development Goals (SDG) of the United Nations to the actions carried out in the Indo-Pacific; 5) Defend Human Rights; 6) Promote the inclusiveness of all nations involved in the Indo-Pacific to strengthen peace, security, and stability in the region; 7) Promote partnerships between equals with Indo-Pacific nations in third countries to share global responsibilities.

IV.III. *The economic dimension and Netherlands*

Finally, the Netherlands has been the third European nation to offer a national strategy for the Indo-Pacific in November 2020, also offering the shortest document (10 pages) and published only in Dutch at the source. In it, the Netherlands, like Germany, articulates its strategy based on eight dimensions of strategic interest⁷⁴: the defense of the international legal order, the promotion of democracy and human rights, security and stability, sustainable trade, safe passage, and maritime security, address the climate change, global healthcare and poverty reduction.

The Netherlands also highlights the integration of its strategy into coordinated action within the EU by stating⁷⁵,

“The Netherlands would like to see the EU develop its own vision of the Indo-Pacific, aimed at promoting EU cooperation with the region on the basis of a distinctive EU agenda so as to protect and promote our own interests. At the same time, the Netherlands must consider how it can contribute itself to an EU agenda by strengthening its bilateral ties with the countries of the Indo-Pacific”.

On the strategic alliances that the Netherlands advocates, the document states that they should prioritize like-minded nations such as Australia, Japan, New Zealand, South Korea, and India, as well as strategic colla-

⁷³ *Ibidem*, 11-12.

⁷⁴ Government of the Netherlands, Netherlands, *Indo-Pacific: Guidelines for strengthening Dutch and EU cooperation with partners in Asia*, 2020, <https://www.government.nl/binaries/government/documents/publications/2020/11/13/indo-pacific-guidelines/Indo-Pacific+Guidelines+EN.pdf>

⁷⁵ Government of the Netherlands, Netherlands, *Indo-Pacific: Guidelines for strengthening Dutch and EU cooperation with partners in Asia*.

borations with ASEAN. Without explicitly mentioning China, the Netherlands is making its position on building a security architecture in the Indo-Pacific clear.

IV.IV. *The EU's geopolitical strategy for the Indo-Pacific*

Finally, the European External Action Service (EEAS) of the European Union announced in March 2021 the need to develop a strategic European position on the Indo-Pacific⁷⁶, filling a hole in its global projection that contrasted with the assertiveness of other actors with whom it shares close political and strategic ties such as the US, Japan, India, and Australia. This commitment was materialized by the EU's High Representative of the European Union for Foreign Affairs and Security Policy and Vice-President of the European Commission, Josep Borrell, announcing⁷⁷: "From trade and investment, to connectivity, climate action and security, we have a big stake in the Indo-Pacific and should do our part to keep the regional order open and rules-based". This declaration heralded the end of a long strategic absence in the EU taking an international position on the Indo-Pacific.

It has been suggested that one of the reasons for this European parsimony is China's economic dent made in the heart of the EU⁷⁸ through its Belt and Road Initiative (BRI)⁷⁹. The so-called "checkbook diplomacy", a term used to refer to the Chinese BRI, could have been the main impediment to the fruition of serious community interest in developing some type of strategy in the region that could upset the Asian giant. Therefore, it is not surprising that the nations most critical of how China has landed in Europe, such as France and Germany, have also been the first to have developed their own national strategy. It must also be mentioned that, even though the European (and other) nations backing the FOIP take special care

⁷⁶ European External Action Service (EEAS), *The EU needs a strategic approach for the Indo-Pacific*, 2020, March 12. https://eeas.europa.eu/headquarters/headquarters-homepage/94898/eu-needs-strategic-approach-indo-pacific_en, Accessed August 1, 2021

⁷⁷ European External Action Service (EEAS), *The EU needs a strategic approach for the Indo-Pacific*.

⁷⁸ Feliz Heiduk & Nedim Sulejmanovic, "Will the EU take view of the Indo-Pacific? Comparing France's and Germany's approaches", *Working Paper 1*, German Institute for International and Security Affairs, 2021, January, https://www.swp-berlin.org/fileadmin/contents/products/arbeitspapiere/WP_EU_Indopacific_Heiduk_Sulejmanovic.pdf

⁷⁹ Eva Pejsova, "The Indo-PacificA passage to Europe?", *BRIEF 3, Connectivity & Security Along the Road, EUISS – Series*, European Institute for Security Studies (EUISS), 2018, March, https://www.iss.europa.eu/sites/default/files/EUISSFiles/Brief%203%20The%20Indo-Pacific_0.pdf, Accessed August 1, 2021.

not to officially present this initiative as a rival, threat, or alternative to the BRI, the geopolitical implications of these both models are clear.

Therefore, if one were to accept the view that the European Union is torn between a more pro-BRI stance and a more pro-Indo-Pacific one, one would find a clear disruptive line of an economic nature at the heart of the EU. The richest nations —France, Germany, and the Netherlands— have taken a pro-Indo-Pacific stance. The poorest nations (especially the ones in southern Europe still recovering from the 2008 crisis) have adopted a more pro-BRI stance). Therefore, the “checkbook diplomacy” plays a fundamental role not only in the geopolitical projection of European nations but also on the question of European cohesion and in its capacity to geopolitically coordinate itself.

This radical break in geopolitical terms within the EU itself represents a serious obstacle not only for European projection in the Indo-Pacific, but also for reaching future strategic agreements between European member partners. The commitments made with China may prevent the European nations that have signed them from supporting or giving approval to more assertive European positions regarding the Asian giant on human rights, state interventionism in markets with European participation, Chinese military expansionism at sea, or China's treatment of ethnic minorities (such as the Uighurs) or political assertiveness (such as in Hong Kong).

These implications can also extend to other international areas that would be vital for the EU. An example of this would be the opening of the first Chinese military base abroad in Djibouti, which would allow China to project its military force in the Gulf of Aden, a vital geostrategic point through which is an important part of the supply of crude oil, products, and raw materials from the EU. Likewise, this could compromise the European position on the trade war between the US and China, the EU position on the clashes between China and Japan in the Senkaku / Diaoyu Islands, and the role of Europe in redefining a new balance of powers in a multipolar world.

For this reason, the European geopolitical division not only damages Europe's role in this area of the planet but also compromises the EU's own ability to operate in the future as a coordinated entity with one voice. This situation can be solved with the announced future EU strategy regarding the Indo-Pacific, allowing the EU not only to project its voice in this region of the planet, collaborating with democracies and free-market economies but also to consolidate itself internally as a more cohesive actor when making strategic decisions.

V. Conclusions

The Indo-Pacific is becoming the new geopolitical axis of the planet, which is a reason for Europe to abandon its long strategic absence in the region and develop its own strategies for it. This has been reflected in the development of the three national strategies to date, as well as in the announcement of future development of a European strategy. The three nations that have developed their own national strategies have been France in 2019 (focusing on security), Germany in 2020 (focusing on multilateralism), and the Netherlands also in 2020 (focusing on trade). These three strategies reveal the triple importance that the region has for the world in general and Europe in particular: security (with six recognized nuclear powers including France), economic (with 62 percent of world Gross Domestic Product (GDP), and demographic (with the 64 percent of the world's population).

In March 2021 the future development of an EU strategic document for the Indo-Pacific was announced, ending a European absence and marking a turning point in the global projection of the European Union. This paradigm shift may mark a change in relations of the EU with China since the commitment to a European strategy in the Indo-Pacific would imply a displacement of the weight that China can play both in the region and in the relationship with the EU. The impact of COVID-19 may have accelerated this process by disrupting the global supply chain and, thus, reducing the European trade dependence with China, at least temporarily. It will take time to see if this historic event is accompanied by a greater European presence in the Indo-Pacific. In any case, although the guidelines in the EU document are still generic, it may mark the beginning of greater European cohesion and assertiveness not only in the Indo-Pacific but in many other geopolitical scenarios.

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The cooperation agreements within the belt and road initiative: The european common commercial policy at crossroads

*Los acuerdos de cooperación en el marco de la nueva ruta de la seda:
la política comercial común europea en jaque*

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Summary: I. Introduction.—II. The cooperation agreements within the Belt and Road Initiative: violation of European Union Law? 1. The Belt and Road Initiative. 2. The European Union Member States' Memorandums of Understanding. 3. Incompatibility of the Memorandums of Understanding with European Union Law.—III. The crash between these Memorandums of Understanding and the European Common Commercial Policy 1. The Free Trade Agreements within the European Common Commercial Policy. 2. Are these Memorandums of Understanding Free Trade Agreements? 3. What can the European Union do?—IV. Conclusion.

Abstract: To carry out Chinese investments in third countries under the Belt and Road Initiative, the China is currently concluding numerous cooperation agreements called Memorandums of Understanding with its objective States, including European Union Member States. These Memorandums of Understanding are international agreements, but not international treaties as such, which implies that these documents may not lead to rights and obligations under International Law. However, every Memorandum of Understanding signed between China and a European Member States should be interpreted in accordance with European Law. The problem is that Member States are presumably violating different instruments of this legal framework as well as the European Union Common Commercial Policy, which is an exclusive competence of this international organization, if we interpret that these cooperation agreements are masking free trade agreements. This paper aims to analyse this possible interpretation and its consequences for the European Union, as these agreements entail a weakening of the European trade and investment power and put the European Common Commercial Policy at crossroads.

Keywords: Belt and Road Initiative, Memorandums of Understanding, European Union, Common Commercial Policy, Trade Power.

Resumen: *Para llevar a cabo las inversiones que China tiene planeadas en terceros países en el marco de la Nueva Ruta de la Seda, el Gigante Asiático está celebrando actualmente numerosos acuerdos de cooperación denominados Memorandos de Entendimiento con sus Estados objetivo, incluidos algunos Estados Miembros de la Unión Europea. Estos Memorandos de Entendimiento son acuerdos internacionales, pero no tratados internacionales como tales, lo que implica que estos instrumentos pueden no pueden contener derechos y obligaciones propias del Derecho Internacional. Sin embargo, todo Memorando de Entendimiento concluido entre China y un Estado Miembro de la Unión debe interpretarse de acuerdo con el Derecho de la Unión Europea. El problema es que los Estados Miembros están presuntamente violando diferentes instrumentos de este marco normativo, así como la Política Comercial Común de la Unión Europea, que es competencia exclusiva de esta organización internacional, si interpretamos que estos acuerdos de cooperación están enmascarando acuerdos de libre comercio. Este artículo tiene como objetivo analizar esta posible interpretación y sus consecuencias para la Unión Europea, ya que estos acuerdos suponen un debilitamiento del poder comercial e inversor europeo y sitúan la Política Comercial Común Europea en jaque.*

Palabras clave: *Nueva Ruta de la Seda, Memorandos de Entendimiento, Unión Europea, Política Comercial Común, Poder Comercial.*

I. Introduction

The European Union (EU) is an international organization with an integrational character to which its Member States have cede the exercise of exclusive sovereign powers in various areas, including common commercial policy. In this way, the Union, in accordance with the provisions of articles 206 and 207 of the TFEU, is in charge of changes in tariff rates, the conclusion of tariff and trade agreements relating to trade in goods and services, and the commercial aspects of intellectual property, foreign direct investment, the achievement of uniformity in measures of liberalisation, export policy and measures to protect trade¹. One of the ways through which the EU materializes these trade relations with third countries and trade organizations is the negotiation and conclusion of free trade agreements, which are international treaties that are guided by the principles of the multilateral trade system and the legal framework of EU.

Nevertheless, some Member States are currently challenging this exclusive competence of the EU in trade matters by signing bilateral cooperation agreements that include trade provisions with China under the Belt and Road Initiative (BRI), a geostrategic plan of the Chinese Government to promote the creation of infrastructures that connect both regions of the world through different investment projects in order to create synergies and improve the use of international trade. Hungary was the first EU Member State that signed a cooperation agreement with China, followed by other eastern countries like Poland and Czech Republic. Regarding other EU Member States, the Greek government is the leading supporter of the BRI in the Mediterranean Sea, and the Italian government has been the first G7 country to formally join the Initiative on 23 March, 2019, constituting an important context change that has raised alarms within the EU and generated important tensions. On the contrary, northern and western EU Member States, such as France or Germany, remain loyal to the European Commission and publicly reject the BRI.

Although it has already been stated that these bilateral cooperation agreements, called Memorandums of Understanding (MoUs), already constitute a violation of some of the instruments and principles of EU Law, such as the loyal cooperation principle or the Council Decision of 22 July 1974 establishing a consultation procedure for cooperation agreements between Member States and third countries, to determine whether or not these MoUs are violating the European Common Commercial Policy

¹ Consolidated version of the Treaty on the Functioning of the European Union (OJ C 326, 26th October, 2012).

(ECCP), a deeper interpretive study of them is necessary. As we will have the opportunity to verify in this paper, with an extensive interpretation it is possible to argue that the MoUs concluded between some EU Member States with China represent a *de facto* violation of European Law, although not a *de jure* violation. In this context, it is worth asking, therefore, what tools does the Union have to deal with this possible infringement.

Finally, as we will see, although the aforementioned violation of the ECCP may be debatable, what raises no doubt is the current weakening of the EU trade and investment power as consequence.

II. The cooperation agreements within the Belt and Road Initiative: violation of EU Law?

Before introducing ourselves into the interpretation of the MoUs concluded between China and some EU Member States, it is necessary to offer some basic information on the BRI to understand what this universal Chinese project entails, as well as to analyse the legal nature of this series of MoUs and its current incompatibility with some principles and instruments of EU Law in order to subsequently delve into the study of its possible conflict with the ECCP and its consequences.

1. *The Belt and Road Initiative*

The “Chinese dream” is the doctrine understood as the rejuvenation of the Chinese nation and the impulse of a strong country, where citizens experience a considerable improvement in their quality of life². This doctrine has been promoted by Xi Jinping since his election as General Secretary of the Communist Party of China on November 2012 and due to this conception, China has managed to change its perception abroad from one of the world’s factory to one of the world’s powers, focused on expanding its influence in other countries. To achieve this makeover, the Beijing government has implemented different policies and strategies, such as the one called “Made in China 2025” to promote and restructure its industry with which China aims to be a leader in technology on an international scale, or the Ban on the import of plastic waste in January 2018.

² Xulio Ríos, «The Belt and Road Initiative: An Opportunity for Spain», *Sinología Hispánica, China Studies Review* 6, n.º 1 (2018): 162. David Arase, «Trends in Southeast Asia. The geopolitics of Xi Jinping’s Chinese dream: problems and prospects», *ISEAS-Yusof Ishak Institute* 15 (2016): 6.

However, the most impressive plan to date is the BRI, which aims to create a global infrastructure through a series of investment projects mainly focusing on building transport and energy infrastructure that facilitates access to more efficient routes and to a decrease in the cost of international trade. Besides, this plan allows China to take advantage of the natural resources located in third countries, to expand China's influence abroad and to increase its national economic growth.

The originally called "One Belt, One Road"³, nowadays called BRI, was announced by President Xi Jinping in an diplomatic visit to Kazakhstan on September 2013⁴ and it consist of a plan to promote policy coordination, infrastructure connection, trade facilitation, financial integration, industrial cooperation and mutual understanding among peoples⁵. In some authors' words, the prime aim of this Initiative is "to boost economic and political relations with neighbouring countries"⁶. The use of trade, investment and finances to support strategic interests is called economic diplomacy and China makes good use of it to achieve its external objectives in the medium and long term and to consolidate itself as a global power.

Technically speaking, the BRI consists of two main routes: a land route, known as the Silk Road Economic Belt, and a sea route, called the 21st-Century Maritime Silk Road⁷. Besides, the Initiative has six principal corridors that have shown different degrees of development in recent years: China-Pakistan; New Eurasian Land Bridge; China-Central Asia-Western Asia; China-Mongolia-Russia; China-Indochina Peninsula; Bangladesh-China-India-Myanmar⁸.

³ Antonio Alonso, «Los intereses de China en Asia Central, Belt and Road». *Revista UNISCI* 45 (2017): 70, DOI: <http://dx.doi.org/10.5209/RUNI.57284>

⁴ The place for the announcement was premeditated, as this Central Asia region is vital for the Initiative.

Bruno De Conti, Marina Sequetto Pereira and Daniela Magalhães Prates, «Belt and Road Initiative: A Chinese Marshall plan?», *Papel Político* 24, n.º 2 (2019): 5, DOI: <https://doi.org/10.11144/Javeriana.papo24-2.bric>

⁵ As defined by the Oficina del Grupo Dirigente para el Fomento de la Construcción de la Franja y la Ruta, within the China's Embassy in Uruguay. Available in: <http://uy.china-embassy.org/esp/xwtdts/t1675198.htm>

⁶ Justyna Misiągiewicz and Marcin Misiągiewicz, «China's "One Belt, One Road" initiative - the perspective of the EU», *Annales Universitatis Mariae Curie-Skłodowska, Sectio K - Politologia* 23, n.º 1 (2016): 34, DOI:10.17951/k.2016.23.1.33.

⁷ Alonso, «Los intereses...», 72. De Conti, «Belt...», 5. Virginia Soledad Busilli, «Belt and Road Initiative (BRI): la iniciativa estratégica de Xi Jinping», *Cuadernos de Política Exterior Argentina (Nueva Época)* 131 (2020): 75.

⁸ Busilli, «Belt...», 77. Anastas Vangeli, «China's Engagement with the Sixteen Countries of Central, East and Southeast Europe under the Belt and Road Initiative», *China and World Economy* 25, n.º 5 (2017): 104, DOI: 10.1111/cwe.12216.

To finance the infrastructure necessary to create such routes and corridors and increase connectivity, China created a Silk Road Funds and the Asian Infrastructure Investment Bank, launched in December 2015⁹. The goal is to reach 1 trillion US\$ investment funds to finance the infrastructure projects, which turns the BRI into “the most impressive infrastructure plan in history”¹⁰, even more than the Marshall Plan, to which it has been compared by some authors¹¹.

Regarding the partners involved in the Initiative, the countries that take part of this BRI are wide and heterogeneous in nature. It is interesting to mention the participation of Russia, as it constitutes the reaffirmation of the geostrategic coalition against the United States. Moreover, the participation of EU Member States is also important in geostrategic terms, as we will analyse later. However, there are two significant absences: United States, for obvious reasons, and Japan, as this country is an historical United States’ allied¹². In addition to the sovereign States, in the BRI also international organizations participate, such as the United Nations or the African Union, evidencing the China’s need to develop regional approaches towards cooperation¹³. Finally, international actors such as NGOs, multinational enterprises and think tanks are also welcomed in the Initiative¹⁴.

The most important thing that we must keep in mind is that this BRI is not a multilateral project governed by a multilateral international treaty, nor an international organization, but a bilateral strategy, as the extensive network of international relations between China and its partners is formalized through bilateral cooperation agreements, called Memorandums of Understanding, that contains provisions related to trade. In this way, China manages to modulate its interests based on the partner with whom it negotiates.

2. The EU Member States’ Memorandums of Understanding

To discuss whether these cooperation agreements that include trade matters signed between China and some EU Member States are incom-

⁹ Alonso, «Los intereses...», 71. De Conti, «Belt...», 6.

¹⁰ De Conti, «Belt...», 6.

¹¹ Zhao Minghao, «The Belt and Road Initiative and its Implications for China-Europe Relations», *International Spectator: Italian Journal of International Affairs* 51, n.º 4 (2016): 114, DOI: 10.1080/03932729.2016.1235819

¹² Busilli, «Belt...», 82.

¹³ Vangeli, «China’s...», 103.

¹⁴ Busilli, «Belt...», 80.

patible with the ECCP or not, first, it is important to analyse the legal nature of these agreements and, second, the reasons why some EU Member States have signed this kind of cooperation agreements with China.

MoUs are international agreements, but not international treaties as such, as defined in article 2.1.a) of the Vienna Convention on the Law of the Treaties¹⁵, which implies that these agreements do not contain rights and obligations subject to International Law, falling, then, within the scope of soft-law, that is, “those non-binding rules or instruments that interpret or inform our understanding of binding legal rules or represent promises that in turn create expectations about future conduct”¹⁶. Thus, soft-law is half way between fully binding international treaties and fully political positions. Nevertheless, this lack of legal enforcement does not imply lack of legal implications, as Guzman and Meyes affirms, because soft-law shape States’ expectations as to what constitutes compliant behaviour¹⁷.

This way, sovereign States sign MoUs instead of international treaties to coordinate their behaviour and to avoid the cost of violation¹⁸. If China and EU Member States concluded international treaties instead of MoUs, these international treaties would be governed by International Law (art. 2.1.a) of the Vienna Convention), including the European Law in force.

As for the EU Member States that have signed this kind of agreements, China is aware of the reluctance of some European countries and the EU itself to do business with it due to its economic structure and poor transparency¹⁹. Because of this reason, the Beijing Government is focusing on finding allies with respect to which China can retain its negotiating power and win the balance. These allies include countries dissatisfied with the EU integration process, such as Hungary, which was the first EU Member State that signed a MoU with China²⁰, followed by other eastern countries like

¹⁵ Article 2.1.a) of the Vienna Convention on the Law of the Treaties defines international treaties as “an international agreement concluded between States in written form and governed by International Law, whether embodied in a single instrument or in two or more related instruments and whatever its particular designation”. Vienna Convention on the Law of Treaties, done at Vienna on 23 May 1969. Entered into force on 27 January 1980. United Nations, Treaty Series (Vol. 1155, 331).

¹⁶ Andrew T. Guzman and Timothy L. Meyer, «International Soft Law», *Journal of Legal Analysis* 2, n.º 1 (2010): 174.

¹⁷ Guzman and Meyer, «International...», 175.

¹⁸ Guzman and Meyer, «International...», 168 and 175.

¹⁹ European Commission, «EU-China – A strategic outlook», 2019. Available in: <https://ec.europa.eu/info/sites/info/files/communication-eu-china-a-strategic-outlook.pdf>

²⁰ Minghao, «The Belt...», 113.

Poland and Czech Republic²¹. The main reason for these countries to support the BRI is the reaffirmation of their sovereignty in foreign affairs²². Within the southern and Mediterranean EU Member States, Greece is the main supporter of the BRI, having signed a MoU with China in 2017. However, a more recent event that has supposed a paradigm shift has been the conclusion of a MoU between Italy and China on 23 March, 2019, transforming Italy into the first G7 country to formally join the BRI and causing significant tensions within EU²³. Finally, within the northern and western EU Member States, captained by France and Germany, there is a strong oppose towards the BRI, thus supporting the EU point of view. As we can see, the stance of EU Member States on the BRI is “far from being homogeneous”²⁴ because while some EU Member States have refused to be part of the initiative, others have enthusiastically joined it.

3. *Incompatibility of the Memorandums of Understanding with EU Law*

Although MoUs, as cooperation agreements, are not international treaties as defined by the article 2.1.a) of the Vienna Convention on the Law of Treaties and, therefore, they are not governed by International Law, we must keep in mind that the EU is one of the few international organizations with an integrational nature and the European legal framework is a *sui generis* Law, which goes beyond simple cooperation between sovereign States. According to the article 3 of TFEU²⁵, this organization shall have exclusive competence in different matter such as

²¹ It is important to note that these three EU Member States, Hungary, Poland and Czech Republic, have been subject to infringement procedures by the European Commission due to their refusal to host asylum seekers. Pagán, «Internal...», 13.

²² Antonio José Pagán Sánchez, «Internal tensions and economic opportunities: explaining the heterogeneous stance of EU Member States towards the Belt and Road Initiative», *Revista Electrónica de Estudios Internacionales* 40 (2020): 12. DOI: 10.17103/reei.40.13

²³ Femke Van der Eijk and Angela Pandita Gunavardana, 25th June, 2019, «The Road that divided the EU: Italy joins China's Belt and Road Initiative», *European Law Blog*. Available in, <https://europeanlawblog.eu/2019/06/25/the-road-that-divided-the-eu-italy-joins-chinas-belt-and-road-initiative/> (last accessed: May 5, 2021).

However, it should be noted that the signing of this agreement took place in a context of political instability in Italy, with Giuseppe Conte at the helm, that led to the return of technocracy. In February 2021, Mario Dragui, a self-confessed Europeanist, was elected president of the council of ministers and, therefore, the current technocratic configuration of the Italian executive may be able to contain the potential negative effects of such an agreement for the ECCP.

²⁴ Pagán, «Internal...», 15.

²⁵ Consolidated version of the Treaty on the Functioning of the European Union (OJ C 326, 26th October, 2012).

custom union, monetary policy and common commercial policy with third countries, among others. This implies that EU Member States have ceded the exercise of these competences to the Union itself and must refrain from exercising them. However, there are other sovereign competences in trade-related issues that remain in the hands of the States like the negotiation and conclusion of cooperation agreements with third countries other than free trade agreements, here called MoUs.

Nonetheless, the possibility of concluding MoUs by the EU Member States with third countries is still subject to the fulfilment of European legal instruments and principles to avoid disloyalty and improve the cohesion of the different state and European policies.

One of these principles is contained in article 4.3 of the Treaty on EU, which states “the Member States shall facilitate the achievement of the Union’s tasks and refrain from any measure which could jeopardise the attainment of the Union’s objectives”²⁶. This principle is known as “loyal cooperation principle”²⁷. Given that the EU has concluded in principle the negotiations on the Comprehensive Agreement on Investment (CAI) and is in its trade agenda objectives to negotiate a free trade agreement with China, bilateral MoUs that foreseen trade issues between this country and EU Member States may seem incompatible with article 4.3 of the Treaty on the EU, as they can jeopardise the attainment of the Union’s objectives.

Regarding the legal instruments that EU Member States still have to comply with when signing MoUs with China, it is important to mention the European Council Decision of 22th July 1974, establishing a consultation procedure for cooperation agreements between Member States and third countries²⁸. In this instrument, the Council, although ensured in the preamble that these cooperation agreements are “in accordance with the common policies, and with the common commercial policy in particular”, established a consultation procedure for cooperation agreements between Member States and third countries “to ensure that the agreements (...) are consistent with common policies and in particular the common commercial policy; to facilitate the exchange of information and views in order to identify problems of common interest and, in view of these, to encourage coordination, where appropriate, of the activities of the Member States with regard to the third countries concerned; and to examine the advisability of unilateral measures which could be taken by the Community (...) in order

²⁶ Consolidated version of the Treaty on the EU (OJ C 326, 26th October, 2012).

²⁷ Luciana Bezerita, «Infringement procedure – The case of Romania», *Internal Auditing and Risk Management* 4, n.º 60 (2020): 702.

²⁸ Council Decision of 22th July, 1974, establishing a consultation procedure for cooperation agreements between Member States and third countries (OJ L 208, 30th July, 1974).

to promote cooperation projects”²⁹. Specifically, this Decision states “Member States shall inform the Commission and the other Member States of agreements relating to economic and industrial cooperation which they propose to negotiate or renew with third countries and of commitments and measures which are proposed by the authorities of the Member States concerned as part of cooperation agreements and which may affect the common policies, and in particular of those which may affect trade”³⁰. The main problem is that, according to the European Commission, as included in a recent European Court of Auditor’s Report³¹, they have not been informed about any MoUs signed by Member States, thus violating the 1974 Decision and, therefore, EU Law in force.

As we can see, there is little to argue about these legal incompatibilities. However, to study the possible incompatibility of these MoUs with the ECCP and to analyse what the Union can do about it, a more in-depth analysis is necessary.

III. The crash between these Memorandums of Understanding and the European Common Commercial Policy

Having analysed some incompatibilities between the MoUs signed by EU Member States with China and the European legal framework in force, it is time to lift the latch of a deeper debate: are these MoUs masking typical dispositions included in free trade agreements? Can it be argued that these MoUs can be considered free trade agreements? If so, are EU Member States violating the Common Commercial Policy as an exclusive competence of the EU? What can the EU do to restore the legality?

1. *The Free Trade Agreements within the European Common Commercial Policy*

The article 21.2.e) of the Treaty on EU establishes the duty to define and implement common policies and actions, as well as to strive to achieve a high degree of cooperation in all areas of international relations, in order “to promote the integration of all countries in the world economy” with

²⁹ Article 3 of the Council Decision of 22th July, 1974.

³⁰ Article 1 of the Council Decision of 22th July, 1974.

³¹ European Court of Auditors, «The EU’s response to China’s state-driven investment strategy», *Review* n.º 3, p. 45. Available in: https://www.eca.europa.eu/Lists/ECADocuments/RW20_03/RW_EU_response_to_China_EN.pdf (last accessed: May 5, 2021).

measures such as the progressive elimination of obstacles to international trade. One of the most important common policies, together with the Development Cooperation Policy or the Common Foreign and Security Policy, is the ECCP, which was already included in the 1957 Treaty of Rome and whose legal basis, at present, is found in articles 206 and 207 of the TFEU, where said Common Commercial Policy appears developed although without enjoying an exhaustive definition.

Regarding the nature of the Common Commercial Policy, as stated before, we are facing a matter in which the EU has exclusive competence, as established in article 3 of the TFEU and reaffirmed in the ruling of December 13, 1973, in which the European Court of Justice recognized incidentally, “the adoption of this common commercial policy falls within the exclusive jurisdiction of the Community”³², and in the Opinion 1/75 in response to the request made by the European Commission on the competence of the European Community to conclude within the framework of the Organization for Economic Cooperation and Development an agreement on certain issues related to export credit, which concluded that a parallel competence of the Member States and the European Community in matters of trade policy was inadmissible because any unilateral action on the part of the Member States would lead to disparities in the conditions for the grant of export credits, calculated to distort competition between undertakings of the various Member States in external markets”³³. Consequently, this exclusivity eliminates any possibility of state intervention in the Union’s trade policy³⁴.

Finally, the ECCP is configured through various legal instruments that can be classified into three large systems, namely, the multilateral trading

³² Judgment of the European Court of Justice of 13th December 1973, ECLI:EU:C:1973:165

³³ Opinion of the European Court of Justice of 11th November 1975, ECLI:EU:C:1975:145.

³⁴ However, it has been affirmed that the “new generation” or “deep integration” free trade agreements concluded by the EU with third States go beyond its exclusive competence by including specific aspects of, for example, the reciprocal promotion and protection of the investments, which is why, following Ruling 2/15 of the European Court of Justice in relation to the agreement with Singapore, the European Commission has decided that this entire series of free trade agreements be concluded as “Mixed Agreements”, that is, they are jointly signed by the EU and by all its Member States. Some authors, such as Professor Javier Díez-Hochleitner, propose, in order to preserve the exclusive character of the ECCP, “to separate the commitments on investment protection from the free trade agreements, which require the joint signature of the EU and all its Member States and include them in Mixed Agreements that complement the free trade agreements”. Javier Díez-Hochleitner Rodríguez, «La Nueva Política Comercial de la Unión Europea Desborda el Marco de sus Competencias. Comentarios Preliminares al Dictamen 2/15 del TJUE», *Revista de Derecho Comunitario Europeo* 57 (2017): 429.

system, whose instruments derive from the membership of the EU and its Member States in the World Trade Organization and the obligation to comply with its legal framework; the conventional bilateral and regional system, through which the EU concludes free trade agreements with third States and trade organizations in order to advance in the abolition of trade barriers to international imports and exports and promote economic growth on the basis of article XXIV of the General Agreement on Tariffs and Trade; and, finally, the autonomous or unilateral system, which includes a wide variety of legal instruments related to tariff policy, export and import regimes, trade defence, and tariff preferences for the least developed countries, within which the European generalized scheme of preferences stands out. Focusing on the bilateral and regional conventional system, that is, all the free trade agreements concluded by the EU with third States, despite the fact that all of them pursue the main objective of abolishing barriers and obstacles to international trade and its liberalization, different nuances regarding its secondary objectives or its content make its formal name vary. Thus, in addition to the free trade *per se*, the EU has also signed other types of agreements: Economic Partnership Agreements define as asymmetric trade agreements that offer third States (generally with a low level of development such as African, Caribbean and Pacific countries) a franchise of customs duties and quota-free access to the European market. Deep and Wide Scope Free Trade Zones, which must be understood as the trade agreements concluded by the EU with Moldova, Ukraine and Georgia, which depend to a large extent on a gradual legal approximation of these States to the EU's *acquis*. Finally, Stabilization and Association Agreements with the Western Balkans base on political dialogue with a view to future membership of this series of States in the EU³⁵.

2. *Are these Memorandums of Understanding Free Trade Agreements?*

Although all MoUs signed between China and European Member States foreseen the same provisions, we are going to take a deep look to the MoU concluded with Italy³⁶, as this country has been the first G7 country to

³⁵ Antonio Blanc Altemir, «Introducción: La Unión Europea, adalid del libre comercio ante el neoproteccionismo de la era Trump», in *La Unión Europea, Promotora del Libre Comercio: Análisis e Impacto de los Principales Acuerdos Comerciales* dir. By Antonio Blanc Altemir (Pamplona: Thomson Reuters Aranzadi, 2020): 20.

³⁶ Italian Government, «China-Italy Memorandum of Understanding», 2019, Available in: http://www.governo.it/sites/governo.it/files/Memorandum_Italia-Cina_EN.pdf (last accessed: May 5, 2021).

formally join the BRI and the one that has caused a significant increase in tensions within the EU.

In the preamble, similarities between MoUs and free trade agreements can be found. Both instruments recognize the importance of strengthening their economic, trade and investment relations, in accordance with the objective of sustainable development, thus priming trade matters, although the title of these MoUs do not specify that. It is also usual that both instruments mention regional and multilateral instruments like the United Nations Charter, the 2030 Agenda, the Paris Agreement, the EU-China 2020 Strategic Agenda for Cooperation and the EU Strategy for Connecting Europe and Asia adopted in October 2018. Nevertheless, in every MoU, the parties affirm that the aspiration of said MoU is to further bilateral practical cooperation. Further practical cooperation in trade matters can entail adopting enforceable measures, thus distancing the nature of these MoUs from its initial conception as soft-law and getting closer to binding international treaties like free trade agreements.

Moreover, if we closely take a look to the content of these MoUs, we will be able to perceive that every one of them contains an article related to trade, entitled “unimpeded trade and investment.” In the case of the China-Italy MoU, this article states “(...) The Parties reaffirm their shared commitment to free and open trade and investment, to counter excessive macroeconomic imbalances and to oppose unilateralism and protectionism (...) They will promote transparent, non-discriminatory, free and open trade and industrial cooperation, an open procurement, level playing field and respect for intellectual property rights (...)”. Making an extensive interpretation of this paragraph, and focusing in the content rather than the format, one could argue that this provision is masking a typical disposition from a free trade agreement, which, again, are governed by International and European Law in force, and constitute an exclusive competence of the EU.

To avoid a violation of EU Law, Member States, such as Italy, have made an effort to ensure that the format of the MoU clarifies its non-binding nature, using the instrument of soft-law called “Memorandum of Understanding” and terms like “Unimpeded trade and investment”, thus not giving the EU the chance to contest and declare this kind of agreements incompatible with EU Law. However, taking into account the content of the MoU and not its format, a *de facto* violation, instead of a *de jure* violation³⁷, can be defended, because, although it is a non-binding international

³⁷ In 2017, the Court of Justice of the EU already settled a case in which the nature of the “EU-Turkey action plan” was debated as a political agreement concluded by the European Council (and, therefore, controllable by the Court of Justice) or as an international treaty

norm, as Van Der Eijk and Pandita Gunavardana affirm, “moving forward in implementing these intentions could not only exacerbate political tensions within the EU but also lead to a violation of Italy’s legal obligations as a EU Member State. Although this section (Unimpeded trade and investment) does not explicitly mention the creation of trade or investment agreements, if steps were made in the direction of creating binding intergovernmental agreements that solidify the commitments set out in the Memorandum without the approval of the EU, that would be at odds with EU Law”³⁸.

3. *What can the EU do?*

If, finally, the European Commission, who is in charge of promoting the general interest of the Union and supervising the application of Union Law under the control of the Court of Justice according to article 17.1 of the Treaty on the EU, decides to pay attention to the content of the MoUs signed by its Member States with China and considers that the provisions of these instruments fall within the ECCP and, therefore, are incompatible with EU Law in force, it shall launch an infringement procedure, foreseen in article 258 of the TFEU, which states: “If the Commission considers that a Member State has failed to fulfil an obligation under the Treaties, it shall deliver a reasoned opinion on the matter after giving the State concerned the opportunity to submit its observations. If the State concerned does not comply with the opinion within the period laid down by the Commission, the latter may bring the matter before the Court of Justice of the EU”. In other words, through this procedure, the European Commission fulfils its role of ensuring that Member States comply with European legislation in order to harmonize their national Law and international agreements with European Law in force³⁹ and the Court of Justice conducts judicial review to monitor the Member States obligations under the legal framework of the EU, as the Commission do not have investigation service⁴⁰.

concluded by the Heads of State (and, therefore, not controllable by the Court of Justice). Finally, without making the nature of this document clear, what the Court affirms is that said document is an agreement signed by the Heads of State and not an agreement signed by the European Council, as they pretended to show, constituting, then, a *de facto* violation. Judgment of the European Court of Justice of 28th February 2017, ECLI:EU:T:2017:128.

³⁸ Van der Eijk and Pandita Gunavardana, «The Road...».

³⁹ Bezerita, «Infringement...», 701.

⁴⁰ Tunjica Petrusic, «Infringement Procedures before the Court of Justice of the EU», *Pravni Vjesnik God 29*, n.º 1 (2013): 77.

Regarding the types of breaches by EU Member States, according to Craig and de Burca, these breaches include the breach of the obligation of sincere cooperation under article 4.3 of the Treaty on the EU, already studied, inadequate implementation of European Law, breaches which interfere with EU external action, as it could be the conclusion of MoUs incompatible with the ECCP, and systemic and persistent breaches of general principles⁴¹.

The problem with this infringement procedure is the discretion that surrounds it, since it is the European Commission who finally decides what type of violation and against which Member State it will initiate proceedings and send it to the Court, as well as on the timing of these proceedings.

Besides, according to article 259, “before a Member State brings an action against another Member State for an alleged infringement of an obligation under the Treaties, it shall bring the matter before the Commission”, so, if, for example, Germany, which strongly opposes to the BRI, wants to declare the incompatibility between the China-Italy MoU and the EU Law in force, at the end, it continuous to be the European Commission the one that declares such incompatibility.

Finally, the article 260 includes the possibility of imposing financial sanctions on a Member State that has failed to implement a judgment in which the European Court of Justice declares the infringement⁴².

Another possible solution applicable to this legal conflict could be for the EU Court of Justice to declare these MoUs incompatible with EU Law, since, according to article 218.11 of the TFEU: “A Member State, the European Parliament, the Council or the Commission may obtain the opinion of the Court of Justice as to whether an agreement envisaged is compatible with the Treaties. Where the opinion of the Court is adverse, the agreement envisaged may not enter into force unless it is amended or the Treaties are revised”⁴³.

⁴¹ Paul Craig and Grainne de Burca, *EU law, text, cases and materials* (Oxford: Oxford University Press, 2011): 423-424.

⁴² Article 260 of the TFEU: “If the Court of Justice of the EU finds that a Member State has failed to fulfil an obligation under the Treaties, the State shall be required to take the necessary measures to comply with the judgment of the Court. If the Commission considers that the Member State concerned has not taken the necessary measures to comply with the judgment of the Court, it may bring the case before the Court after giving that State the opportunity to submit its observations. It shall specify the amount of the lump sum or penalty payment to be paid by the Member State concerned which it considers appropriate in the circumstances. If the Court finds that the Member State concerned has not complied with its judgment it may impose a lump sum or penalty payment on it”.

⁴³ This article was alleged in the aforementioned case of the “EU-Turkey action plan”. If this action plan was concluded by the European Council and not by the Head of the EU Member States, and it finally was an international treaty, this document could have been monitored by the Court.

IV. Conclusion

As we have been able to testify, the BRI, understood as the Chinese strategy which aims to gradually develop a global infrastructure through a multitude of investment projects mainly focusing on building transport and energy infrastructure that allows the country to take advantage of the resources and raw materials of third countries, to expand China's influence abroad and to increase economic growth, has reached Europe and China has managed to expand said influence in some Member States of the EU, although others remain reluctant. The way through which China materializes its bilateral trade relations with these Member States has been the MoUs, which, as we have been able to analyse, taking into account their format, are mere political agreements framed in soft-law, not international treaties as defined in the Vienna Convention on the Law of Treaties.

This paper has analysed some of the legal problems that originate these MoUs, such as their collision with Article 4.3 TEU, which foresees sincere cooperation between the EU and its Members States, and the 1974 Council Decision, establishing a consultation procedure for cooperation agreements between Member States and third countries. Furthermore, this paper has studied the possibility that these soft-law instruments also represent a presumed violation of the Common Commercial Policy, which is one of the EU exclusive competences. Taking into account the content of the MoU and not its format, a *de facto* violation, instead of a *de jure* violation, can be defended.

To prevent some Member States from violating EU Law by concluding free trade agreements framed in the aforementioned Common Commercial Policy, the European Commission, the main guardian of compliance with European treaties, can initiate an infringement procedure established in articles 258, 259 and 260 of the TFEU. In addition, the EU Court of Justice, according to article 218, can issue an opinion on the incompatibility of these MoUs with EU Law in force. However, the necessary steps have not yet been taken to do so.

Although the aforementioned violation of the Common Commercial Policy may be debatable, what raises no doubt is the weakening of the EU trade and investment power. Traditionally, all trade and investment relations with third countries have been formalized through multilateral free trade agreements concluded by the EU within its Common Commercial Policy and governed by International and European Law. The growing number of bilateral cooperation agreements, here called MoUs, between EU Member States and third States such as China in areas related to trade and investment not only implies a weakening of European integration in these matters, already hit by issues such as Brexit or the consequences of COVID-19, but an increase in Chinese influence in this region.

While it is true that the EU has always been reluctant to participate in the BRI regionally, and so do countries such as Germany, the truth is that given the incorporation of some of its Member States into the China Initiative, Europe should be able to give a common response to the Chinese challenge. Determining whether this joint EU response should be to accept or to reject the BRI is open to debate, since participation in this Initiative carries economic benefits, but also security risks that are not negligible.

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The rise of China and the US-Europe alliance drift in the 2010s: A lost decade for the European Union?

*El ascenso de China y la deriva de la alianza entre Estados Unidos
y Europa en el decenio del 2010:
¿una década perdida para la Unión Europea?*

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Summary: I. Introduction.—II. The Asian Infrastructure Investment Bank.—III. The Belt and Road Initiative.—IV. The deployment of Huawei's 5G networks.—V. China as a threat within NATO's framework.—VI. Conclusion.

Abstract: The United States and its allies within the European Union have been unable to forge a common response to deal with the rise of China. Even though China's growing global presence might undermine the international position of the United States, Washington's European allies have sometimes refused to close ranks with their American ally. And more importantly, European engagement with China during the last decade has lacked internal consistency and cohesion, to the point that the European Union has rarely been *the* relevant actor when it comes to shaping Europe-China relations. This is the conclusion reached by this paper after analyzing the EU's behavior on the Asian Infrastructure Investment Bank, the Belt and Road Initiative, the adoption of Huawei's 5G technology and the consideration of China as a threat within NATO's framework. The European Commission has been unwilling or unable to unite the member states around a common position on these four cases. However, the findings of this article also support the idea that an embryonic model of strategic autonomy was already underway during the last decade, and that the growing awareness within the EU about the importance and implications of China's rise brings new geopolitical opportunities for the union.

Keywords: China, power transition, transatlantic relationship, strategic autonomy, alliance drift.

Resumen: *Estados Unidos y sus aliados dentro de la Unión Europea han sido incapaces de forjar una postura común al lidiar con China. Aunque la creciente presencia global de China podría socavar la posición internacional de Estados Unidos, los aliados europeos de Washington han rechazado en ocasiones cerrar*

filas con su aliado americano. Y lo que es más importante, la relación europea con China durante la última década ha carecido de consistencia interna y cohesión, hasta el punto de que la Unión Europea ha sido raramente “el” actor relevante a la hora de dar forma a la relación entre Europa y China. Esta es la conclusión alcanzada por el presente artículo tras analizar el comportamiento de la UE en el Banco Asiático de Inversión en Infraestructuras, la Nueva Ruta de la Seda, la adopción de la tecnología 5G de Huawei y la consideración de China como una amenaza dentro del marco de la OTAN. La Comisión Europea no ha podido o querido unir a todos los estados miembros en torno a una postura común en estos cuatro casos. Sin embargo, los resultados del presente artículo también corroboran la idea de que un modelo embrionario de autonomía estratégica ya se había puesto en marcha durante la última década, y que la creciente concienciación dentro de la UE sobre la importancia y las implicaciones del ascenso de China proporcionan nuevas oportunidades geopolíticas para la Unión.

Palabras clave: *China, transición de poder, relación transatlántica, autonomía estratégica, deriva de la alianza.*

I. Introduction

December 1978. Deng Xiaoping becomes the paramount leader of the People's Republic of China during the Third Plenum of the 11th Central Committee Congress of the Communist Party of China. His accession to power marked the beginning of the reform and opening-up policy that, through the next four decades, would result in the fastest process of economic growth and development in China's history. And throughout this period, in spite of some occasional diplomatic clashes, the Chinese government was assisted by the United States, which for years encouraged Beijing to play a more active role in international affairs and supported its bid for accession to the World Trade Organization (WTO). Successive governments in the United States cooperated economically with China on the basis that this would, in the medium to long term, make this Asian country increasingly similar to those of the liberal world, including the eventual adoption of liberal democracy. But these expectations, as is evident, have not been fulfilled.

Washington's policy towards China over the past four decades has ended up, in stark contrast to its initial objectives, placing at the top of the international system a country whose political regime is completely different in terms of ideological values from that of the current hegemonic power, the United States. The ideological principles of the liberal international order and the international position of the United States are under increasing criticism from China's state media¹, as part of a strategy that, given the enormous difficulty of proposing an ideologically alternative international order, seeks to turn the existing liberal one into an "agnostic" one². A new order in which democratic and liberal values are not privileged and do not justify foreign interference in the internal affairs of third countries.

In view of the systemic challenge that the rise of China poses, in both ideological and material terms, to the international position of the United States and the liberal international order it leads, Washington policymakers have attempted over the past decade to resort to the US-led system of alliances to maintain and strengthen the global position of the hegemonic

¹ See, for example, Fabio Massimo Parenti, "Positive New Consensus on China Emerging in EU", *Global Times*, April 14, 2020, <https://www.globaltimes.cn/content/1185590.shtml> (Accessed June 14, 2021), and Global Times Editorial, "Immoral to boost reelection by attacking WHO: Global Times editorial", *Global Times*, April 15, 2020, <https://www.globaltimes.cn/content/1185734.shtml> (Accessed June 14, 2021).

² Kyle Lascurettes, *Orders of Exclusion: Great Powers and Strategic Sources of Foundational Rules in International Relations* (New York: Oxford University Press, 2020), 238-241.

power. This is not surprising, as the alliance system is the only area of power in which China is unable to match the United States in the short, medium, or even long term. Twelve of the 20 largest economies in the world are allies of the United States, and combined with this country, accounted for more than half of the world's Gross domestic product (GDP) in 2019³. Meanwhile, China has historically refused to establish alliances with third countries. Its only official ally is North Korea, and Chinese leaders are wary of implementing a policy of alliances that, although it could increase their international influence, is seen as a potential burden⁴.

Closing ranks with its allies around a common stance on China could certainly serve well the interests of the United States in a possible moment of power transition, especially through an effective multilateralism that, according to Keohane, consists of "the practice of coordinating national policies in groups of three or more states, through ad hoc arrangements or by means of institutions"⁵. The implementation of a common policy on China could also, above all, keep US allies away from those Chinese initiatives that reinforce Beijing's international position while undermining that of Washington. The problem, however, arises with the realization that US allies are increasingly interdependent with China, and therefore that they are often reluctant to adopt measures that could jeopardize their bilateral relationship with Beijing. This trend is already having a direct impact on the very relationship between the United States and its allies, especially after the mid-2010s. Recent academic literature has already analyzed the dilemma faced by traditional US allies such as Australia⁶, South Korea⁷ and the Southeast Asian nations⁸, which are trapped into the new dynamics of great power

³ The 12 US allies among the top 20 largest economies are Japan, Germany, the United Kingdom, France, Italy, Brazil, Canada, the Republic of Korea, Australia, Spain, the Netherlands, and Turkey.

⁴ Zhenming Zhong and Yanqi Yang, "Alliance Forging or Partnership Building? China's Policy in the Asia-Pacific under the Xi Administration", *The International Spectator* 55, no. 1 (2020): 62-64.

⁵ Robert O. Keohane, "Multilateralism: an agenda for research", *International Journal* 45, no. 4 (1990): 731.

⁶ Nicholas Thomas, "The Economics of Power Transitions: Australia between China and the United States", *Journal of Contemporary China* 24, no. 95 (2015): 846-864; John Blaxland, "Strategic Balancing Act Australia's Approach to Managing China, the USA and Regional Security Priorities", *Security Challenges* 13, no. 1 (2017): 19-40.

⁷ Woosang Kim, "Rising China, pivotal middle power South Korea, and Alliance transition theory", *International Area Studies Review* 18, no. 3 (2015): 251-265.

⁸ Jonathan Stromseth, *DON'T MAKE US CHOOSE. Southeast Asia in the throes of US-China rivalry* (Washington, The Brookings Institution, 2019); Sung Chul Jung, "Lonely China, Popular United States: Power Transition and Alliance Politics in Asia", *Pacific Focus* 33, no. 2 (2018): 260-283.

rivalry and that, dependent on Beijing in economic issues and on Washington in security affairs, are unwilling to take sides.

The European region is no exception to this alliance drift phenomenon, despite the fact that there is a lack of academic studies that analyze the rise of China as a factor behind this process. Encouraged by the potential economic benefits, the vast majority of the member states of the European Union (EU) have not hesitated at times to take a different stance than their American ally in their relations with China. The United States has tried to keep them away from some of the Chinese initiatives launched during the last decade, but has not always succeeded in this endeavor. Whether the United States manages to get its European allies on its side has already become a crucial factor in its rivalry with China, and not only in terms of balance of power. After all, the symbolism of European support for the global leadership of the United States is evident, given that as Mazarr has argued, Europe has been for decades at the core of the “guiding coalition” that established the norms, institutions, and practices of the liberal international order⁹.

However, over the past decade, the member states of the EU have engaged with Beijing in ways that have not always pleased Washington’s policymakers, given that this autonomous foreign policy has reinforced China’s international influence. In this regard, what has been the role of the European Union in the unfolding of events? This paper aims to provide an answer to this question. The findings of this article indicate that, although the ideal option for the member states of the EU, and for the Union itself, would have been to act in a joint manner to strengthen their position in dealing with China, this has not been the case, and that the EU has played a rather limited role during all this time. This conclusion is reached after analyzing the role of the EU in the four most relevant international cases for the balance of power between the United States and China during the last decade in terms of influence in financial institutions, geopolitical power, technological primacy, and military capabilities, respectively: the Asian Infrastructure Investment Bank (AIIB), the Belt and Road Initiative (BRI), the deployment of Huawei’s 5G technology, and the consideration of China as a military threat within the North Atlantic Treaty Organization’s framework. In half of the cases, the European Commission did not attempt to forge a common response, and when it tried, it failed to do so. However, these failures, together with China’s increasingly assertive foreign policy, have also convinced the EU to face the new decade with a much more geopolitically oriented approach.

⁹ Michael J. Mazarr, “Summary of the Building a Sustainable International Order Project”, *Rand Corporation* (2018): 4.

II. The Asian Infrastructure Investment Bank (AIIB)

The AIIB was founded in 2014 in an international conference held in Beijing and attended by political authorities from 21 Asian countries. The new bank, which was a key part of Beijing's strategy announced by Xi Jinping in 2015 to create a new "regional order"¹⁰, reflected a tectonic shift in China's foreign policy that would become especially evident over the next few years: China would not only react to the initiatives proposed by third countries, but would also present its own international projects.

The establishment of the AIIB could help China achieve some domestic gains, such as the creation of new job opportunities, the alleviation of the overcapacity problem of some industries, and the expansion of its geopolitical presence in a region that is often the scene of territorial and maritime disputes¹¹. Nevertheless, China's dissatisfaction with the distribution of voting power in the major international financial institutions was also a key factor that encouraged Chinese leaders to establish the AIIB. When the AIIB was established in 2014, China held a voting power of 3,99% in the International Monetary Fund (IMF)¹², 4,42% in the World Bank¹³, and 5,44% in the Asian Development Bank (ADB)¹⁴. Or in other words, China's voting power was far below the real size of its economy, which in 2014 accounted for 16,07% of global GDP in terms of purchasing power parity¹⁵. The reluctance of the US Congress to pass a reform of the IMF's voting power only added to China's sense of grievance. In this context, the creation of a new multilateral development bank in which China would be the majority partner was considered as an acceptable unilateral decision to correct the situation.

¹⁰ Joanna Chiu, "Xi calls for 'new regional order'", *Bangkok Post*, March 28, 2015, <https://www.bangkokpost.com/business/511042/xi-outlines-new-regional-order> (Accessed June 17, 2021).

¹¹ Antonio José Pagán Sánchez, "Una aproximación al Banco Asiático de Inversión en Infraestructura desde la óptica de la política exterior china", *Jiexi Zhongguo* 21: 96.

¹² Amanda Mars, "EEUU empantana la reforma del FMI", *El País*, April 12, 2014, https://elpais.com/economia/2014/04/12/actualidad/1397320660_917615.html (Accessed June 22, 2021).

¹³ Zhiming Xin, "China gains more say in World Bank", *China Daily*, April 27, 2010, https://www.chinadaily.com.cn/business/2010-04/27/content_9778666.htm (Accessed June 22, 2021).

¹⁴ Asian Development Bank, "Annual Report 2018", *ADB*, December 31, 2018, <https://data.adb.org/sites/default/files/ar2018-oi-appendix1.pdf> (Accessed June 22, 2021).

¹⁵ C. Textor, "China's share of global gross domestic product (GDP) adjusted for purchasing-power-parity (PPP) from 2010 to 2020 with forecasts until 2026", *Statista*, June 22, 2020, <https://www.statista.com/statistics/270439/chinas-share-of-global-gross-domestic-product-gdp/> (Accessed June 22, 2021).

The establishment of the AIIB strengthened China's financial influence in the Asian region, while undermining that of the United States. Whereas Washington's cumulative voting power in multilateral development banks in Asia (including the World Bank and the ADB) was 14,1% before the establishment of the AIIB, this figure decreased to 11,2% after the foundation of the new bank, and China's cumulative voting power increased from 5,3% to 9,6%¹⁶. Not surprisingly, the Chinese initiative was regarded with suspicion by the US government from the very beginning, given its potential to become a challenge to the international position of the United States in Asia as well as to the World Bank, the IMF and the ADB. Moreover, the Barack Obama administration held security concerns about the hypothetical indirect control of the AIIB by the Chinese government and the potential undermining of the environmental and social standards of other multilateral development banks by the acceptance of projects that would be rejected by them, spurring "a race to the bottom"¹⁷.

To the dismay of US policymakers, the majority of EU member states did not share these concerns, and on the contrary, they considered that the best way to ensure that they could influence the AIIB's regulatory evolution and its operations was to join it. It was the United Kingdom, the closest historical ally of the United States in the region, the first European country that announced its willingness to join the bank as a founding member, on March 12, 2015. This decision was heavily criticized by the Barack Obama administration, which complained that London only gave Washington 24 hours' notice of its decision to join the AIIB¹⁸. The United Kingdom's announcement was a turning point that eventually resulted in the transformation of a bank of regional scope into a global institution: when the British decision was made public, most member states of the Organization for Economic Cooperation and Development (OECD) decided to join the AIIB in less than a month¹⁹. There was a similar response from the EU member states, to the point that most of them decided to take part in the Chinese initiative.

¹⁶ Scott Morris and Mamoru Higashikokubaru, "AIIB Voting Power: How Does It Compare to the other MDBs and What Does it Mean for the US and Japan?", *Center for Global Development*, July 9, 2015, <https://www.cgdev.org/blog/aiib-voting-power-how-does-it-compare-to-the-other-mdbs-and-what-does-it-mean-us-and-japan> (Accessed June 23, 2021).

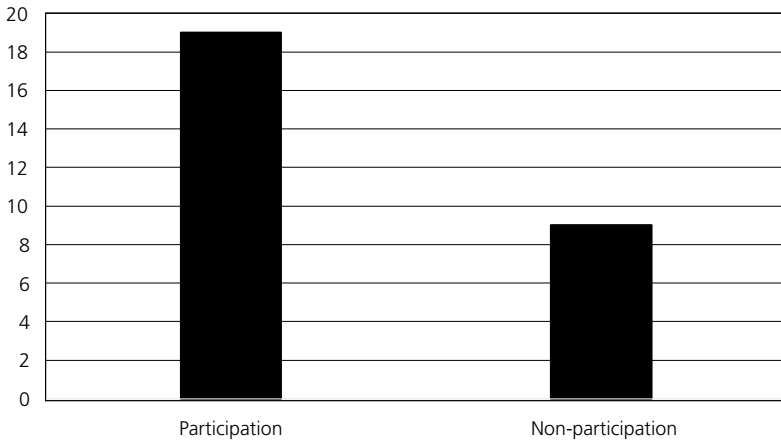
¹⁷ Gisela Grieger, "Asian Infrastructure Investment Bank: How lean, clean and green is the AIIB?", *European Parliamentary Research Service – PE 679.086* (2021): 3.

¹⁸ Doug Stokes, "Trump, American hegemony and the future of the liberal international order", *International Affairs* 94, no. 1 (2018): 148.

¹⁹ Stephan Haggard and Jason Kuo, "The British Role in the Founding of the AIIB", *Peterson Institute for International Economics*, February 3, 2016, <https://www.piie.com/blogs/north-korea-witness-transformation/british-role-founding-aiib> (Accessed June 23, 2021).

Figure 1

EU member states' participation in the AIIB



Source: author's own creation.

Of the 28 member states that the EU had in 2015, 19 decided to join the AIIB, while 9 of them declined to do so²⁰. There was no unity of action among these 28 countries when it came to making a decision on their participation in the Chinese initiative, losing an opportunity to assert their interests jointly. Paradoxically, the most repeated message among the major European capitals was that participation in the AIIB would make it possible to shape its future evolution and favor its adoption of high standards of governance. For example, the then Germany's finance minister Wolfgang Schäuble, after announcing Berlin's decision to join the AIIB, stated, "we want to contribute our long-standing experience with international financial institutions to the creation of a new bank by setting high standards and helping the bank to get high international reputation"²¹.

Admittedly, the Chinese government granted Western countries the capacity to exert influence within the operations and the evolution of the

²⁰ The EU member states that joined the AIIB are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Spain, Sweden and the United Kingdom. The full list of AIIB members can be accessed in the following source: Asian Infrastructure Investment Bank, "Members and Prospective Members of the Bank", *AIIB*, June 7, 2020, <https://www.aiib.org/en/about-aiib/governance/members-of-bank/index.html> (Accessed June 24, 2021).

²¹ Ian Tsung-yen Chen, *Configuring the Asian Infrastructure Investment Bank: Power, Interests and Status* (New York: Routledge, 2021), 140.

bank. Knoerich and Urdinez have even claimed that most Western countries joined the bank precisely because they were encouraged by Beijing through the inducement of agency in certain aspects such as its founding membership and its articles of agreement²². Yet, if what they really wanted was to influence the development of the AIIB, and not to ingratiate themselves with the Chinese government, as the US government heavily criticized, it is striking that 19 EU member states decided to join the bank in a unilateral and haphazard manner, without exercising unity of action.

The role of the European Commission in the accession of the 19 EU member states to the AIIB was next to nil. As Bustillo and Maiza have argued, this European institution complained about the unilateral decision of these countries to join the bank, as well as their omission of EU interests by not requesting representation for European institutions within the bank, as was the case, for example, with the European Bank for Reconstruction and Development. According to both authors, the possibility of implementing a joint EU response was briefly explored in 2015 by the Economic and Financial Committee, but its adoption became impossible after the unilateral decision of the United Kingdom to join the AIIB as a founding member on March 12, 2015²³.

The AIIB case reflected the difficulty of achieving a common position among the EU member states when dealing with China. However, the BRI case is even more paradigmatic. While the European Commission did not earnestly seek to forge a common response on the AIIB, it did attempt to do so with the BRI. In that context, the competing interests among EU member states and the limits of the union to become *the* key political actor in dealing with China would then emerge.

III. The Belt and Road Initiative (BRI)

The BRI was announced by Xi Jinping in Kazakhstan during a speech at Nazarbayev University in September 2013. The initiative, to which China has pledged to allocate \$1.25 trillion by 2025, plans to build infrastructure routes by land and sea that connect the Eurasian region and also reach the African continent. Most BRI's infrastructure projects extend

²² Jan Knoerich and Francisco Urdinez, "Contesting Contested Multilateralism: Why the West Joined the Rest in Founding the Asian Infrastructure Investment Bank", *The Chinese Journal of International Politics* 12, no. 3 (2019).

²³ Ricardo Bustillo and Maiza Andoni, "China, the EU and multilateralism: the Asian Infrastructure Investment Bank", *Revista Brasileira de Política Internacional* 61, no. 1 (2018): 10.

throughout Southeast Asia, Central Asia, the Middle East, and Europe. These four regions are critical for the international position of the United States, given that most of its allies are located within them, as well as 70% of the world's population, 55% of global GDP, and 75% of the world's energy reserves²⁴.

The BRI has eventually become a diplomatic success for China. 140 countries have signed a Memorandum of Understanding with China to officially become members of the initiative²⁵. And, as Europe was regarded by China as the final destination of the BRI, the EU could not afford to stay on the sidelines. In fact, the initiative presented both evident economic opportunities and challenges for the union itself from the very beginning. A study by the think tank Bruegel estimated that the BRI could increase the EU's foreign trade by 6%²⁶. Besides, with the estimated creation of \$2.5 trillion in trade among BRI countries between 2015 and 2025, and the number of their middle-class citizens reaching 2 billion by 2050²⁷, the Chinese initiative had, from the outset, the potential to increase European exports to Asia, to which should also be added the opportunities for economic growth on European soil provided by Chinese investments in infrastructure in the region. Moreover, the BRI was also regarded as a positive element in terms of financial diversification, in a moment in which economic actors, such as sovereign wealth funds, non-European banks and the IMF had increased their leverage over the financing of European economies after the global financial crisis of 2008²⁸.

Nevertheless, in spite of the economic opportunities posed by the BRI, the initiative was received with suspicion by the European Commission and some EU member states. In a speech in 2017 at the 12th EU-China Business Summit, the then President of the European Commission Jean-Claude Juncker, after acknowledging the potential economic benefits brought by the Chinese initiative, stated in the presence of China's Premier Li Keqiang

²⁴ Álex Rodríguez, "China, la Nueva Ruta de la Seda", *La Vanguardia Dossier* 60 (2016): 3.

²⁵ The list of BRI members can be found at the following source: Christoph Nedopil, "Countries of the Belt and Road Initiative", *Green Belt And Road Initiative Center*, January, 2021, <https://green-bri.org/countries-of-the-belt-and-road-initiative-bri/?cookie-state-change=1624387601648> (Accessed June 28, 2021).

²⁶ Stephan Barisitz and Alice Radzyner, "The New Silk Road, part II: implications for Europe", *Focus on European Economic Integration Q4* (2017).

²⁷ Yiwei Wang, "One Belt One Road: Opportunities for Europe-China cooperation", *Friends of Europe*, May 13, 2015, <https://www.friendsofeurope.org/insights/one-belt-one-road-opportunities-for-europe-china-cooperation/> (Accessed June 28, 2021).

²⁸ Ramon Pacheco, "Europe's Financial Security and Chinese Economic Statecraft: the Case of the Belt and Road Initiative", *Asia Europe Journal* 16, no. 3 (2018): 238.

that, when it comes to the implementation of infrastructure projects, “the rules must be the same for all”, that European companies should compete on the same terms as their Chinese counterparts, and that “a level playing field” should be ensured²⁹. In fact, the European Commission perceived the BRI as a potential challenge to the internal cohesion of the EU, given that its large amount of infrastructure projects in Eastern European countries might increase Beijing’s leverage over them and turn this region into an area overly dependent on funding from China. According to this perception, the BRI would be part of a strategy of “divide and conquer”, which would make it impossible for the European Union to reach a common position on China on sensitive issues, as the countries benefiting from this initiative could compete with each other for China’s favor and boycott foreign policy decisions that require unanimity. In this regard, Sigmar Gabriel, former German Foreign Minister, stated in 2017 referring to European countries that “if we do not succeed in developing a single strategy towards China, then China will succeed in dividing Europe”³⁰.

The hypothetical attempt to divide Europe might be favored by the direct control of some commercial and economic actors by the Chinese government, as part of an economic statecraft strategy that is defined by Norris as “state manipulation of international economic activities for strategic purposes”³¹. This potential challenge, in turn, might be exacerbated by China’s numerous acquisitions of certain European critical infrastructures, as it happened with the Piraeus Port in Greece and other investments in ports located in Spain, Italy and Belgium³². Moreover, the European Commission was also concerned about the BRI’s impact on the international standards of the infrastructure projects implemented on European soil. In this regard, the Article 8 of the “Directive 2012/34/EU of the European Parliament and of the Council of 21 November 2012 establishing a single European railway area” provided that EU member states must guarantee the economic sustainability of infrastructure

²⁹ Jean-Claude Juncker, “Speech by President Jean-Claude Juncker at the 12th EU-China Business Summit”, *European Commission*, June 2, 2017, https://ec.europa.eu/commission/presscorner/detail/fr/SPEECH_17_1526 (Accessed June 30, 2021).

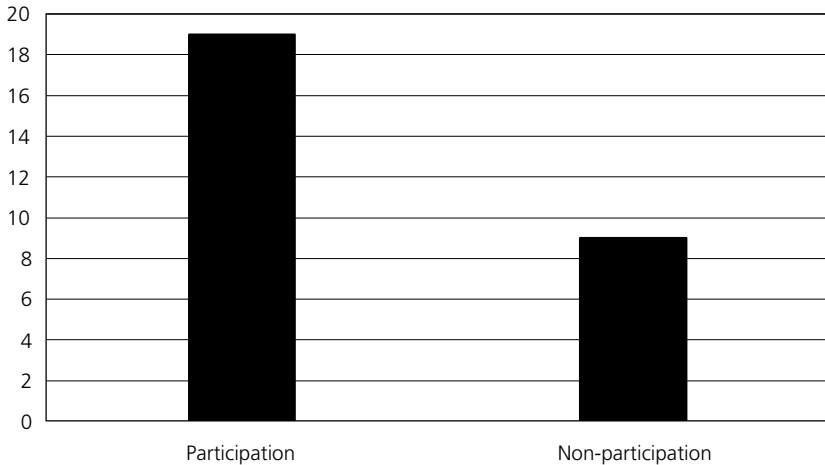
³⁰ Sigmar Gabriel, “Berlin Calls for “One-Europe Policy””, *German-Foreign-Policy*, September 11, 2017, <https://www.german-foreign-policy.com/en/news/detail/7382/> (Accessed June 29, 2021).

³¹ William J. Norris, *Chinese Economic Statecraft: Commercial Actors, Grand Strategy, and State Control* (New York, Cornell University Press, 2018), 16.

³² We Build Value, “Europe wants its “own” New Silk Road”, *We Build Value*, November 7, 2018, <https://www.webuildvalue.com/en/global-economy-sustainability/europe-wants-its-own-new-silk-road.html> (Accessed June 29, 2021).

projects³³, which in theory was not always warranted under the BRI. As a consequence of these potential challenges, not all EU member states have decided to join the initiative.

Figure 2
EU member states' participation in the BRI



Source: author's own creation.

The correlation between participation and non-participation of EU member states in the BRI is exactly the same as in the case of the AIIB: 19 decided to join the BRI, whereas 9 of them declined to take part³⁴. In spite of the potential challenges posed by the initiative to European unity, and the growing concerns raised by European authorities, the EU failed to formulate a comprehensive strategy towards the BRI that could be accepted by all member states. As with the other cases analyzed in this article,

³³ Directive 2012/34/EU of the European Parliament and of the Council of 21 November 2012 establishing a single European railway area Text with EEA relevance (OJ L 343, 14.12.2012, p. 32-77).

³⁴ The EU member states that joined the BRI are Austria, Bulgaria, Croatia, Czech Republic, Estonia, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Portugal, Romania, Slovakia, Slovenia, and Sweden. The full list of BRI members can be accessed in the following source: Christoph Nedopil, "Countries of the Belt and Road Initiative (BRI)", *Green Belt and Road Initiative Center*, January 31, 2021, <https://green-bri.org/countries-of-the-belt-and-road-initiative-bri/?cookie-state-change=1624387601648> (Accessed June 30, 2021).

participation in this Chinese initiative depended exclusively on the individual decision of each member state. Western and Northern member states of the EU remained largely loyal to the European Commission's cautious response to the BRI, whereas the majority of Southern and Eastern European countries joined the initiative, some of them because of the economic opportunities provided by the initiative, and others, such as Hungary, Poland, the Czech Republic, Italy and Greece, also to assert their sovereignty in the midst of the tensions they had with the European Commission³⁵.

The missed opportunity for the EU represented by the unilateral decision of its member states to participate in the BRI is exemplified by the potential implications of such a move, beyond the obvious weakening of European unity of action. In this regard, Martínez San Millán has argued that the decision of the majority of EU member states to join the BRI, which was made against the will of the European Commission, could be in conflict with Article 4 of the Treaty of Lisbon, which stipulates that the countries within the union shall assist the EU in the accomplishment of its tasks and should refrain from jeopardizing the attainment of its objectives, as well as with the Council Decision of 22 July 1974, which established a consultation procedure for cooperation agreements between member states and third countries³⁶.

IV. The deployment of Huawei's 5G networks

If the AIIB was critical to the balance of power between the United States and China in terms of global influence in international financial institutions, and the BRI was crucial in terms of geopolitical power, the competition for the development of 5G networks is pivotal to the technological primacy in the 21st century. In fact, the implications of this new technology are multifaceted. Its connection speed is 60 to 120 times faster than that of 4G, fostering communication among machines and access to data by businesses, and also facilitating the emergence of smart cities, smart homes, and smart automobiles. In addition, 5G deployment is expected to create 3 million

³⁵ Antonio José Pagán Sánchez, "Internal tensions and economic opportunities: explaining the heterogeneous stance of EU Member States towards the Belt and Road Initiative", *Revista Electrónica de Estudios Internacionales* 40 (2020): 1-18.

³⁶ Carmen Martínez San Millán, "The Cooperation Agreements within the Belt and Road Initiative: The European Common Commercial Policy at crossroads", *Deusto Journal of European Studies* Special Issue 3 (2022): 59.

jobs in the United States and 8 million jobs in China³⁷. Due to the importance of this technology, Huawei's international prominence in the global deployment of 5G networks aroused suspicions in the Donald Trump administration, which saw the 5G networks of the Chinese company as a threat to the security of the United States and its allies and as a challenge to Washington's technological superiority.

As part of its trade war with China, and arguing that Huawei's products could be an espionage tool of the Chinese government, the then US President Donald Trump declared a national emergency in May 2019 to blacklist this Chinese company's technology in the United States. The decision banned the sales and use of Huawei's telecom equipment in the country, and also forced some US companies to suspend their businesses with the Chinese enterprise. Since then, the Donald Trump administration has repeatedly pressured its allies to deploy 5G networks provided by alternative suppliers such as Nokia or Sony Ericsson, which are outside the Chinese government's orbit. Washington's concerns about the global expansion of Huawei's 5G were evident during the speech by Mark Esper, the then US Secretary of Defense, at the Munich Security Conference: "I continue to stress to my friends in Europe [...] that America's concerns about Beijing's commercial and military expansion should be their concerns as well. [...] Reliance on Chinese 5G vendors, for example, could render our partners' critical systems vulnerable to disruption, manipulation, and espionage. It could also jeopardize our communication and intelligence sharing capabilities, and by extension, our alliances. [...] In the long run, developing our own secure 5G networks will far outweigh any perceived gains from partnering with heavily subsidized Chinese providers that ultimately answer to Party leadership"³⁸. The perception of Huawei's 5G as a potential threat to the national security of the United States has remained after Joe Biden's rise to power.

Since 2020, the United States has implemented an ambitious foreign policy consisting of two complementary actions: the announcement of retaliation measures — mainly the suspension of intelligence cooperation — against those allies that decide to deploy Huawei's 5G networks, and the provision of benefits for those that decide to rely on alternative companies. The *Clean Network* initiative, announced by Donald Trump in 2020, has

³⁷ Gökhan Tekir, "Huawei, 5G Networks, and Digital Geopolitics", *International Journal of Politics and Security* 2, no. 4 (2020): 118-119.

³⁸ Mark T. Esper, "As Prepared Remarks by Secretary of Defense Mark T. Esper at the Munich Security Conference", *U.S. Department of Defense*, February 15, 2020, <https://www.defense.gov/Newsroom/Speeches/Speech/Article/2085577/remarks-by-secretary-of-defense-mark-t-esper-at-the-munich-security-conference> (Accessed July 1, 2021).

been a fundamental element of the US strategy to this day. This project has encouraged third countries to stay away from Huawei's 5G networks, offering in return a wide range of benefits such as the promotion of investments by US companies, digital cooperation, and collaboration in securing supply chains, telecommunications infrastructure, and intellectual property. The US strategy has been a resounding success: Huawei's 90 deals to deploy 5G networks in third countries dropped to only a dozen³⁹.

For its part, even though the dialogue on digital issues between the EU and China has lacked geopolitical connotations and has merely focused on technical issues⁴⁰, the European Commission is also well aware of the implications of 5G networks in the fields of technology and security. In January 2020, the Network and Information Security (NIS) Cooperation Group, whose secretariat is held by the European Commission, published the so-called "Cybersecurity of 5G networks – EU Toolbox of risk mitigating measures". Even though this document does not mention Huawei by name, it advocates for the creation of a "robust framework of measures with a view to ensure an adequate level of cybersecurity of 5G networks across the EU and coordinated approaches among Member States"⁴¹. That same year, the European Commission also urged EU member states to diversify their 5G suppliers, in a veiled reference to the deployment of Huawei's 5G networks in European soil, and an EU official supported the idea of relying on Nokia and Sony Ericsson for the implementation of this technology⁴².

Nevertheless, in spite of the mounting concerns about the potential security implications of 5G technology, the European Commission is unable to ban the adoption of Huawei's networks at the European level as a consequence of the existing regulations. The amendment of the "Directive (EU) 2016/1148 of the European Parliament and of the Council of 6 July

³⁹ Keith Krach, and Francis R. Fannon, "Under Secretary Keith Krach and Assistant Secretary Francis R. Fannon Briefing on Recent Travel to Central and South America", *U.S. Embassy in Panama*, November 24, 2020, <https://pa.usembassy.gov/under-secretary-keith-krach-and-assistant-secretary-francis-r-fannon-briefing-on-recent-travel-to-central-and-south-america/> (Accessed July 1, 2021).

⁴⁰ Ian Anthony *et al.*, "China-EU Connectivity in an Era of Geopolitical Competition", *Stockholm International Peace Research Institute – Policy Paper* 59 (2021): 36.

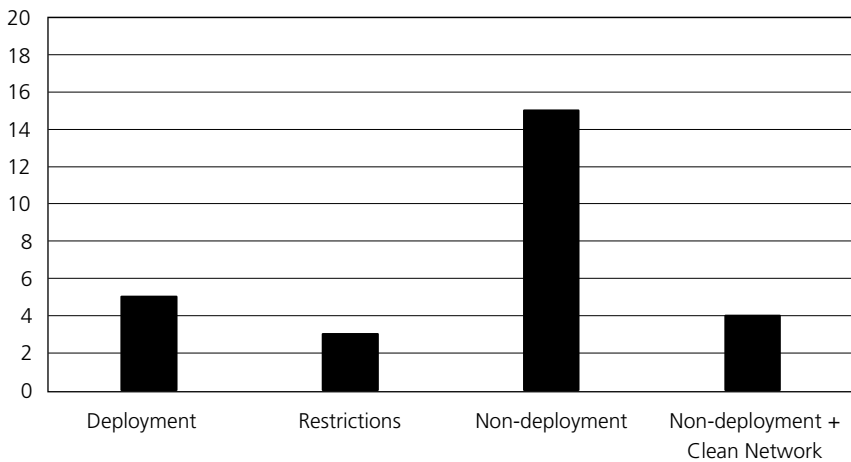
⁴¹ NIS Cooperation Group, "Cybersecurity of 5G networks – EU Toolbox of risk mitigating measures", *Europa.eu*, March 8, 2021, https://ec.europa.eu/newsroom/dae/document.cfm?doc_id=64468 (Accessed July 2, 2021).

⁴² Foo Yun Chee, "EU countries must urgently diversify 5G suppliers, Commission says", *Reuters*, July 24, 2020, <https://www.reuters.com/article/us-eu-cybersecurity-5g-idUSKCN24P12T> (Accessed July 2, 2021).

2016”, which is the first cybersecurity law of the European Union, might be a valid option to accomplish this endeavor, but it would require the individual approval of each of the EU member states⁴³. In fact, this is a particularly unlikely alternative, given that the responses of EU member states towards Huawei’s 5G networks have varied widely, and some of them are already implementing this technology provided by the Chinese company without restrictions.

Figure 3

EU member states’ deployment of Huawei’s 5G networks



Source: author’s own creation.

The response of the 27 member states of the EU⁴⁴ towards the deployment of Huawei’s 5G networks has been no exception to the heterogeneity with which they have engaged with China over the past decade. In this regard, five member states are implementing or planning to implement Huawei’s 5G without any restrictions, three will use it with partial restrictions, 15 will not rely on this Chinese company at all, and four of

⁴³ Robin Emmott, Foo Yun Chee, and Joanna Plucinska, “Exclusive: EU considers proposals to exclude Chinese firms from 5G networks”, *Reuters*, January 30, 2019, <https://www.reuters.com/article/uk-usa-china-huawei-tech-europe-exclusiv-idUKKCN1PO2MJ> (Accessed July 2, 2021).

⁴⁴ At the time of making a decision on the deployment of Huawei’s 5G networks, Brexit had already been implemented and the United Kingdom was no longer a member state of the EU.

them, in addition to refusing to allow Huawei to participate in the deployment of their domestic 5G networks, have also joined the Clean Network initiative, aligning themselves squarely with the foreign policy of the United States⁴⁵. Therefore, the majority position among member states has been to reject the implementation of Huawei's 5G, but that level of rejection has varied from country to country, and the European Commission has been unable to prevent Huawei's 5G networks from being deployed on European soil.

V. China as a threat within NATO's framework

The North Atlantic Treaty Organization (NATO), unlike its Soviet-led counterpart during the Cold War, is a military alliance whose members have agreed to disagree, as has been evidenced repeatedly since its founding 72 years ago. Already during the discussions to establish the alliance, flexibility became the solution to solve the incompatibilities of national interests among allies, and participating countries agreed that each member of the organization would have the discretion to decide the measures to be taken in the event of military attack⁴⁶.

However, the autonomy and flexibility among the members of the alliance have also meant that, at times, the United States has been unable to get its allies to serve its foreign policy interests, as was evidenced with the United Kingdom's invasion of Egypt in 1956, Charles de Gaulle's attempt to withdraw France from NATO in the 1960s and, more recently, the political tensions between Washington and some of its European allies as a consequence of the invasion of Iraq in 2003. Recent internal debates within NATO on China, in which the United States has been unable to get the unanimous support of its allies, as will be discussed below, also reflect these diverging interests and positions.

⁴⁵ The EU member states that are using or planning to use Huawei's 5G networks are Austria, Hungary, Ireland, Malta, and the Netherlands. For their part, Belgium, Czech Republic and France have imposed partial restrictions on Huawei's 5G. Croatia, Cyprus, Denmark, Estonia, Finland, Germany, Italy, Latvia, Lithuania, Luxembourg, Portugal, Slovakia, Slovenia, Spain, and Sweden have refused to deploy 5G networks provided by this Chinese company. Finally, in addition to rejecting the implementation of Huawei's 5G networks, Bulgaria, Greece, Poland, and Romania have joined the Clean Network. Global responses to Huawei's 5G can be accessed in the following source: David Sacks, "China's Huawei Is Winning the 5G Race. Here's What the United States Should Do To Respond", *Council on Foreign Relations*, March 29, 2021, <https://www.cfr.org/blog/china-huawei-5g> (Accessed July 6, 2021).

⁴⁶ Paul Poast, *Arguing About Alliances: The Art of Agreement in Military-Pact Negotiations* (New York, Cornell University Press, 2019), 147.

China has not been a priority for NATO until very recently. In fact, since 2014, the alliance was rather focused on Russia, which was regarded as the major threat to the security of NATO members. That year, the 30 countries that are part of NATO unanimously decided to suspend all cooperation with Russia as a response to Moscow's involvement in the Ukrainian crisis and, especially, the annexation of Crimea. In fact, the United States and the European Union also took individual actions, imposing sanctions on Russian officials and businesses that resulted in the collapse of the ruble. The worsening of relations between NATO members and Russia also had another collateral effect: Russia moved closer to China, despite having numerous conflicting interests, at a time when Beijing was already displaying an increasingly proactive foreign policy.

This increasingly proactive foreign policy, consisting of seeking greater international influence and safeguarding China's national interests in an assertive way, had already aroused suspicion among EU members, 21 of which (in addition to the United Kingdom) are also part of NATO. For example, the EU attempted in 2016 to issue a critical statement on China's participation in the South China Sea conflict (which was vetoed by Hungary and Greece⁴⁷), in 2017 tried to adopt a critical statement on human rights in China, and in 2018, 28 out of 27 EU member states' ambassadors to China signed a critical report condemning the BRI⁴⁸. Hungary's position made it impossible to achieve unanimity on the latter two issues too. Therefore, the perception of China as a potential cause for European concern was already occurring prior to 2019, and when Donald Trump tried at the 2019 London Summit of NATO to persuade US allies to declare China a threat in military terms, this negative vision was not entirely unprecedented in the West.

It was precisely at the 2019 summit when, for the first time, the members of the alliance decided to declare China as a strategic "challenge" due to its increasingly assertive foreign policy, its rising geopolitical presence, and its growing military capabilities. The heads of state and government of NATO countries stated in their joint declaration, "we recognize that China's growing influence and international policies present both opportunities and challenges that we need to address together as an Alliance"⁴⁹. NATO Secretary General Jens Stoltenberg had already argued

⁴⁷ Veronika Józwiak, "China's Role in Hungarian Foreign Policy", *The Polish Institute of International Affairs* 71 (2017): 2.

⁴⁸ Ravi Prasad, "EU Ambassadors Condemn China's Belt and Road Initiative", *The Diplomat*, April 21, 2018, <https://thediplomat.com/2018/04/eu-ambassadors-condemn-chinas-belt-and-road-initiative/> (Accessed July 9, 2021).

⁴⁹ North Atlantic Treaty Organization, "London Declaration. Issued by the Heads of State and Government Participating in the Meeting of the North Atlantic Council in London

a month earlier, “as the global balance of power is shifting, it is even more important to keep your allies and friends close”⁵⁰, and in another interview in February 2020, he argued that if the United States wants to tackle the rise of China, it will need its European allies and partners⁵¹. Donald Trump, however, tried to go further at the 2019 summit, encouraging US allies to declare China as a military challenge. But even though the mounting concerns among them on the international implications of China’s rise, the then US president was unable to achieve the unanimous support of its allies.

In this regard, the consideration of China as a military threat by NATO would have strengthened the international position of the United States in a context of political crisis and trade war between Washington and Beijing since 2018. Therefore, it is not surprising that Donald Trump repeatedly pushed for such support from US allies during the 2019 summit. However, the efforts were not successful. Although the individual stance of each country was not disclosed, diplomatic sources reported that the US government’s concerns were echoed by “smaller nations” in Central and Eastern Europe, but not by Western European countries. In fact, French President Emmanuel Macron stated that China should not “be the object of our collective defense... in strictly military terms”⁵².

Although the individual position of each NATO ally was not made public, all indications are that there was also no unanimity among EU member states on whether China genuinely represents a military challenge to their own internal security, given that there was a disparity of criteria between Western European countries and Central and Eastern European countries. Moreover, no attempt was made by the European institutions to get the EU member states to adopt a joint position on such a transcendental issue, which is paradoxical for two reasons. First, because even though they have gone largely undefined, the EU and NATO’s opportunities of collaboration are favored by the fact that both institutions are aligned on

3-4 December 2019”, *NATO*, December 4, 2019, https://www.nato.int/cps/en/natohq/official_texts_171584.htm (Accessed July 9, 2021).

⁵⁰ Jens Stoltenberg, “‘Relentless diplomacy, credible defence, strong NATO’ Speech by NATO Secretary General Jens Stoltenberg on receiving the ‘Diplomat of the Year’ award by Foreign Policy magazine”, *NATO*, November 13, 2019, https://www.nato.int/cps/fr/natohq/opinions_170714.htm?selectedLocale=fr (Accessed July 9, 2021).

⁵¹ Vicky McKeever, “US Needs Europe to Tackle the Rise of China, NATO Chief Says”, *CNBC*, February 15, 2020, <https://www.cnb.com/2020/02/15/us-needs-europe-to-tackle-the-rise-of-china-nato-chief-says.html> (Accessed July 9, 2021).

⁵² Stuart Lau, “Nato allies single out China and its policies as a strategic ‘challenge’”, *South China Morning Post*, December 5, 2019, <https://www.scmp.com/news/china/diplomacy/article/3040666/nato-allies-single-out-china-and-its-policies-strategic> (Accessed July 12, 2021).

today's major geopolitical issues, such as counterterrorism, nuclear proliferation, the rise of China and Russia's assertiveness. The joint declarations adopted by both parts in 2016 and 2018 pledged to increase their cooperation on a wide range of issues, such as maritime operations, cybersecurity, defense capabilities, military mobility, the security of neighboring countries to the East and to the South, and also when facing external challenges such as hybrid threats⁵³. Second, because the EU's own stance on China has evolved over the past few years, to the point of being less optimistic and incorporating security considerations into its relationship with Beijing. In March 2019, the European Commission admitted that, in Europe, "the balance of challenges and opportunities presented by China has shifted", and described the country as a "cooperation partner", a "negotiating partner", an "economic competitor", and a "systemic rival"⁵⁴.

The lack of a joint position among the member states of the EU in NATO's internal discussions on China is a scenario that is more resembling the case of the AIIB than that of the BRI and Huawei's 5G adoption, as unlike in the latter two cases, the European Commission made no attempt to deal with China in a unified manner. This circumstance illustrates the limits of the EU's ability and, sometimes-even willingness, to shape the relationship of its member states with China. The EU has failed to become *the* relevant actor in Europe-China relations. However, as will be seen with the recapitulation of the main ideas of this article — as well as their implications — in the Conclusion, it would not seem accurate to argue that the period 2010-2020 has been a lost decade for the European Union when it comes to shaping this bilateral relationship.

⁵³ 2016 joint declaration: Donald Tusk, Jean-Claude Juncker, and Jens Stoltenberg, "Joint Declaration by the President of the European Council, the President of the European Commission, and the Secretary General of the North Atlantic Treaty Organization", *European Council*, July 8, 2016, <https://www.consilium.europa.eu/media/21481/nato-eu-declaration-8-july-en-final.pdf> (Accessed July 19, 2021); 2018 joint declaration: Donald Tusk, Jean-Claude Juncker, and Jens Stoltenberg, "Joint Declaration on EU-NATO Cooperation by the President of the European Council, the President of the European Commission, and the Secretary General of the North Atlantic Treaty Organization", *European Council*, July 10, 2018, https://www.consilium.europa.eu/media/36096/nato_eu_final_eng.pdf (Accessed July 19, 2021).

⁵⁴ European Commission, and High Representative of the Union for Foreign Affairs and Security Policy, "EU-China – A strategic Outlook", *Europa.eu*, March 12, 2019, <https://ec.europa.eu/info/sites/default/files/communication-eu-china-a-strategic-outlook.pdf> (Accessed July 19, 2021).

VI. Conclusion

The EU, and in particular the European Commission, have had difficulties in forging a common European position in dealing with China, to the extent that this institution has not achieved the unanimity of the member states in any of the four cases of analysis. In two of those cases —the AIIB and the discussions to consider China as a military threat within NATO—, the European Union did not even attempt to elaborate a joint response. In view of the divergent position of the EU member states in dealing with China, it is evident that the EU is not yet *the* key political actor when analyzing Europe-China relations. Or in other words, a state-based approach, which takes into account the individual interests and perceptions of each one of the member states of the EU, as well as how the interplay of these two factors ends up shaping their foreign policy on China, is still essential.

Nevertheless, over the last decade, the EU has become increasingly aware of the geopolitical implications of its relationship with China, which go far beyond purely economic factors. As opposed to the initial lack of response in the case of the AIIB, which would also be the case in the discussions to consider China as a military threat within NATO's framework, it has been observed how the European Commission has progressively acquired a stronger geopolitical vision and has attempted to forge a common stance in the BRI and in the adoption of Huawei's 5G. In the latter case, moreover, it has become manifest how, despite not having the necessary tools to restrict the implementation of Huawei's 5G throughout the EU's territory, it has developed its own policy and strategy vis-à-vis this new technology, encouraging member states to ensure the security of their domestic networks. Therefore, despite the setbacks over the period 2010-2020, it is reasonable to argue that it has not been a lost decade for the EU when it comes to Europe-China relations. In fact, after a necessary reflection on the mistakes and limitations of the EU's external action during the last decade, it would not be unreasonable to expect a greater relevance of the EU in the European relationship with China during the next decade.

The attitude of the EU member states in the four cases of analysis reflects, moreover, that the recently fashionable concept of *strategic autonomy*, which would encompass a Europe with a more independent foreign policy and less reliant on the United States, was already a reality in the continent, at least in the second of the words that make up this buzzword. However, despite being genuinely autonomous, this policy is far from being strategic, as each member state of the EU acts on its own. The coordination of their foreign policies on China has not always existed in

European capitals, and the European Commission has not always been able to achieve a strong, single European voice in dealing with China when it has tried.

In sum, the last decade has witnessed the awakening of a new geopolitical vision on China by the EU. As was to be expected, the process has not been without obstacles, which have made the role of the European Commission considerably challenging. Nevertheless, it remains to be seen whether these obstacles are insurmountable, given the growing awareness of the need for an increased geopolitical role of the EU in the context of the growing rivalry between the United States and China, which at times resembles a new Cold War. Events such as the recent sanctions standoff between the EU and China, the consideration of the latter not only as a partner, but also as a competitor and rival by the European Commission, the debates within the European Parliament on the Asian country, and the dispute over the ratification of the EU-China Comprehensive Agreement on Investment (CAI) certify that, unlike a decade ago, the EU is increasingly determined to approach its relationship with Beijing not only from the point of view of economic benefits and the necessary international cooperation, but also from a marked geopolitical character. Whether this “new thinking” on China, which has emerged between 2010-2020, will give way during the following decade to a period of refinement and increased vitality, in which the EU will be not only autonomous, but also strategic, only time will tell.

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Digital currencies: Challenges between the United States, the European Union and Asia Pacific

Monedas digitales: desafíos entre Estados Unidos, la Unión Europea y Asia Pacífico

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Summary: I. Introduction. The FinTech.—II. The development of cryptocurrencies.—III. The race for a digital currency and its challenges.—IV. Other conclusions.

Abstract: In June 2019, Facebook announced its own cryptocurrency “Libra” to be used through WhatsApp and Messenger, in order for its value to remain stable thanks to the support from banks and electronic commerce companies, linking to different currencies and the support of important companies. EU antitrust regulators investigated it as a “threat to monetary sovereignty”. China is already testing its own DCEP cryptocurrency tied to state banks and major companies, with notable advantages. It will probably displace cash and be used even for world trade, which can make it an alternative to the traditional international payment system, compared to the current one led by the United States with the USD. The Belt and Road Initiative (BRI) offers “the area and the route” to extend the Yen as a global digital currency. These new developments, and their rapid and high competitiveness produced as the “art of bian lian”, have generated intense concerns in the international financial system. Will the EU, Japan or the US be able to counter the virtual yuan so quickly?

Keywords: digital currencies, cryptocurrencies, monetary system, governance.

Resumen: En junio de 2019 Facebook anunció su propia criptomoneda “Libra” para usarse a través de WhatsApp y Messenger, con la finalidad de que su valor permaneciese estable gracias al apoyo de entidades bancarias y empresas de comercio electrónico, vinculándose a diferentes divisas y el respaldo de importantes empresas. Los reguladores antimonopolio de la UE lo investigaron como “amenaza a la soberanía monetaria”. China ya se encuentra probando su propia criptomoneda DCEP vinculada a bancos estatales e importantes empresas, con notables ventajas. Probablemente desplazará el dinero en efectivo y se utilizará incluso para el comercio mundial, lo que puede convertirla en una

alternativa al sistema de pagos tradicional internacional, frente al actual liderado por Estados Unidos con el USD. La Iniciativa (BRI) ofrece “la franja y la ruta” para extender el Yen como una moneda digital global. Estos nuevos desarrollos, y su rápida y alta competitividad producida como el “arte de bian lian”, han generado intensas preocupaciones en el sistema financiero internacional. ¿Podrán la UE, Japón o EEUU contrarrestar con tanta rapidez el yuan virtual?

Palabras clave: monedas digitales, criptomonedas, sistema monetario, gobernanza.

I. Introduction. The FinTech

In 2015, China announced a plan, published on May 8, 2015, the strategy to become a technological world power (5G, AI, robotics, aeronautics, cryptocurrencies, etc.), imposing its own norms and standards, in one decade (2015-2025)¹. China is also the dragon of FinTech (Financial Technologies) in the global arena, within the aforementioned strategy, understood as companies that combine finance with technology to provide new financial services based fundamentally on the innovations provided by technology in this area, for example, Alipay (Ant Financial-Alibaba Group) and WeChat (Tencent), one-stop shops that allow half a billion Chinese to access an incredible variety of goods and services²: payments, loans, investments, credit evaluation, taxi rides, travel reservations, social networks, etc. The value of e-money transactions in China, such as with WeChat Pay and Alipay, exceed those of Visa and Mastercard combined³.

As an author explains in *MIT Technology Review*⁴, so much is sold and products so varied through these applications, that Alibaba and Tencent know the economic situation of many small companies in China. As a result, they can give loans to companies that banks would consider too risky⁵. *The application of artificial intelligence to credit scoring makes it possible for individuals and small businesses with no credit history to access it. For this, these analyses consider non-financial variables, such as mobile phone use or behavior on social networks (online reputation)*⁶. In

¹ Gómez Pérez-Cuadrado, E., “Plan Made in China 2025”, ICEX España Exportación e Inversiones (2016): <https://www.icex.es/icex/es/navegacion-principal/todos-nuestros-servicios/informacion-de-mercados/paises/navegacion-principal/el-mercado/estudios-informes/DOC2016671546.html?idPais=CN>

² López-Ibor, R.A., “Un análisis de la economía de plataformas y su regulación”, *Papeles Fundación Faes*, n.º 210 (2018): https://fundacionfaes.org/file_upload/news/pdfs/20180320123324.pdf; Brunnermeier, M. K., Harold, J. y Landau, J-P., “The Digitalization of Money”, *NBER Working Paper Series*, n.º w26300 (2019): https://www.nber.org/system/files/working_papers/w26300/w26300.pdf

³ Mancini Griffoli, T. y Adrian, T., “The rise of digital money”, *Fintech Notes: International Monetary Fund* (2019): <https://www.imf.org/en/Publications/fintech-notes/Issues/2019/07/12/The-Rise-of-Digital-Money-47097>

⁴ Chorzempa, M., “Por qué las ‘fintech’ triunfan en China pero no en el resto del mundo”, *MIT Technology Review* (2019): <https://www.technologyreview.es/s/10833/por-que-las-fintech-triunfan-en-china-pero-no-en-el-resto-del-mundo>

⁵ Gorjón, S., “El crecimiento de la industria fintech en China: un caso singular”, *Boletín económico del Banco de España (artículos analíticos)* (2018): https://www.bde.es/bde/es/secciones/informes/boletines/Boletin_economic/index2018.html

⁶ Barruetaña, E., “La influencia de las nuevas tecnologías en la inclusión financiera”, *Boletín económico del Banco de España (artículos analíticos)* (2020): https://www.bde.es/bde/es/secciones/informes/boletines/Boletin_economic/

*more specific cases, such as loans for agricultural activities for small producers, data obtained by satellite are being used for credit scoring, which also reduces operational and logistical costs*⁷.

Thus, they offer services not covered or poorly provided for by banking entities (they had structural deficiencies in their financial system), in an area where the use of credit cards was scarce. It also benefited from the Chinese government giving its tech giants far more freedom to innovate than US regulators would allow (the Chinese online payments market lacked regulation for years, and its privacy regulations are laughable). In the United States this would be unthinkable. For example, PayPal had to go State by State to request a licence to process payments. The North American country has also long maintained a separation between banking and non-financial companies. If Google wanted to have a bank, US regulators would force it to abandon its search and advertising businesses⁸.

Perhaps we can highlight other factors that have led to this success: electronic money transfers are carried out almost free of charge and quickly, even immediately; comfort (companies are making more and more efforts to make its use easy, intuitive); ubiquity (especially in the case of cross-border transfers), etc. Additionally, in the case of China, with a huge population, has better internet connections and new generations of digital natives. Let us also think that we are talking about new forms of money, with a direct impact on the banking sector in some countries, and therefore *on consumer protection and financial stability*⁹. *Aware of the challenge of achieving a balance between financial stability, financial inclusion and the fintech phenomenon, the International Monetary Fund and the World Bank explicitly include, in the so-called “Bali Fintech Agenda”, 12 high-level issues for consideration from the authorities*¹⁰.

⁷ Partnership for Finance in a Digital Africa, “*Focus Note: Can Big Data Shape Financial Services in East Africa?*”, Farnham, Surrey, United Kingdom, Caribou Digital Publishing (2018): <http://www.financedigitalafrica.org/wp-content/uploads/2018/03/FiDA-Can-Big-Data-Shape-Financial-Services-in-East-Africa.pdf>

⁸ Chorzempa, M., “Por qué las ‘fintech’ triunfan en China pero no en el resto del mundo”, *MIT Technology Review* (2019): <https://www.technologyreview.es/s/10833/por-que-las-fintech-triunfan-en-china-pero-no-en-el-resto-del-mundo>

⁹ Hernández de Cos, P., “*Central banks, financial inclusion and digitalization: harnessing technology for inclusive growth*”, Conference “Financial integration and inclusive development: A view from the Mediterranean Countries”/Banco de España e Instituto del Mediterráneo (IEMed) (2019): <https://www.bde.es/f/webbde/GAP/Secciones/SalaPrensa/IntervencionesPublicas/Gobernador/Arc/Fic/hdc131219en2.pdf>

¹⁰ FMI, “*The Bali Fintech Agenda*” (2018): <https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/10/11/pp101118-bali-fintech-agenda>; Barruetabeña, E., “La influencia de las nuevas tecnologías en la inclusión financiera”, *Boletín económico del Banco de España (artículos analíticos)*, 1/2020 (2020): https://www.bde.es/bde/es/secciones/informes/boletines/Boletin_economic/

In the European Union (EU), the circumstances in which access to the data kept by the platforms may be essential to guarantee healthy competition is being assessed. In these cases, it might be necessary to establish a clear framework of obligations that enables their open and generalized exchange, overcoming the current scope limitations of the Second Payment Services Directive¹¹ (PSD2). *The joint appearance, in July 2020, of the CEOs of four of the largest technology companies in the world before the Judicial Committee of the United States Congress, in the framework of an investigation into alleged anti-competitive practices, serves as an example*¹². It is clear that legislators and policy makers must be prepared for some disruption in the banking landscape¹³. *Opacity, unilateral commercial conditions and abusive clauses, justify the proliferation of public actions*¹⁴. Due to its importance, within the EU, the Regulation on the promotion of equity and transparency for professional users of online intermediation stands out¹⁵.

II. The development of cryptocurrencies

In relation to maximizing the use of emerging technologies to change existing models of financial services, deserves especial attention the use of Blockchain (translated as “chain of blocks”), and cryptocurrencies (cryptographic currencies —using mathematics and advanced computer techniques should also be analyzed—, or cryptocurrencies —a new type of asset or virtual currency—) such as “Bitcoin” (BTC). This virtual currency originated in 2009 as a means of payment by Satoshi Nakamoto, and operates with blockchain technology. Bitcoin represents more than 60% of the total

¹¹ Directive (EU) 2015/2366 of The European Parliament and of The Council of 25 November 2015, on payment services in the internal market, amending Directives 2002/65/EC, 2009/110/EC and 2013/36/EU and Regulation (EU) No 1093/2010, and repealing Directive 2007/64/EC. OJ L 337, 23.12.2015, p. 35-127.

¹² Gorjón, S., “Plataformas digitales: avances en su regulación y retos en el ámbito financiero”, *Boletín económico del Banco de España (artículos analíticos)* (2020): https://www.bde.es/bde/es/secciones/informes/boletines/Boletin_economic/

¹³ Mancini Griffoli, T. y Adrian, T., “The rise of digital money”, *Fintech Notes: International Monetary Fund* (2019): <https://www.imf.org/en/Publications/fintech-notes/Issues/2019/07/12/The-Rise-of-Digital-Money-47097>

¹⁴ Gorjón, S., “Plataformas digitales: avances en su regulación y retos en el ámbito financiero”, *Boletín económico del Banco de España (artículos analíticos)* (2020): https://www.bde.es/bde/es/secciones/informes/boletines/Boletin_economic/

¹⁵ Regulation (EU) 2019/1150 of The European Parliament and of The Council of 20 June 2019 on promoting fairness and transparency for business users of online intermediation services. OJ L 186, 11.7.2019, p. 57-79. This rule has been applied since July 12, 2020.

market capitalization in the virtual currency market¹⁶. But although some cryptocurrencies such as bitcoin have limits on the issuance of their total number, there is no limit on the various cryptocurrency brands that could be issued. Currently, there are more than 2,000 different cryptocurrencies and the proliferation of such currencies is likely to lead to suboptimal or unstable balances and affect price stability¹⁷.

Unlike conventional convertible currencies, this type of virtual currency is not endorsed or regulated by any issuing entity (for example a government or a central bank), and therefore it is defined as a cryptic, encrypted and anonymous currency. The fact that, since its creation, bitcoin has a limit of 21 million (one of which is in the hands of Nakamoto and out of circulation), makes it a rare asset with great potential for revaluation. *That bitcoin, or any other cryptocurrency, lacks an intrinsic value like that of gold and is not backed by a State, such as sovereign currencies, makes its price determined exclusively by supply and demand*¹⁸. The European Central Bank (ECB) does not consider bitcoin a currency, considering that a currency must be a reliable store of value, in the sense that citizens have to be certain that with the money they have today, they will be able to buy roughly the same things tomorrow or a year from now. However, bitcoin is not stable. Its value has skyrocketed and plummeted in the space of a few days. Thus, the ECB considers it a “speculative asset”, a bet to obtain a profit, but with the risk of losing the investment. Perhaps that is why a regulation (known as MiCA) is currently being negotiated at the European level that aims to establish a regulatory framework for the issuance of crypto assets and service providers on them (COM/ 2020/593 final)¹⁹.

¹⁶ Mazanec, J., “Portfolio Optimization on Digital Currency Market”, *Journal of Risk and Financial Management* 14(4):160 (2021). DOI:10.3390/jrfm14040160: https://www.researchgate.net/publication/350618647_Portfolio_Optimization_on_Digital_Currency_Market

¹⁷ Saches, D.R., “Bitcoin Vs. The Buck: Is Currency Competition a Good Thing?”, *Federal Reserve Bank of Philadelphia Economic Insights* Q2 13 (2018): <https://www.philadelphiafed.org/-/media/frbp/assets/economy/articles/economic-insights/2018/q2/eiq218-bitcoin.pdf>

¹⁸ Pintado, C., “En 2021 un bitcoin vale 40.000 dólares”, *The Conversation* (2021): <https://theconversation.com/en-2021-un-bitcoin-vale-40-000-dolares-152249>

¹⁹ Proposal for a regulation of the European Parliament and of the Council on Markets in Crypto-assets, and amending Directive (EU) 2019/1937. It has focused on regulating all those crypto assets that are not considered by current regulations as financial assets or as electronic money and, therefore, are already regulated under these regulations. The MiCA Proposal applies to all those who issue or advise on the issuance of crypto assets and who provide crypto asset services in the European Union. For these purposes, the Proposal defines crypto-asset as a “digital representation of value or rights, which can be transferred or stored electronically through distributed ledger technologies or other similar technologies”.

Bitcoin reached a new historical maximum in April 2021 above \$65,000 2.5 times what the National Association of Securities Dealers Automated Quotation (NASDAQ) itself is valued as a platform. Its capitalization in April 2021 is 914,578 million US dollars, a figure almost five times higher than that of the next on the list (of cryptocurrencies), Ethereum, with 206,676 million dollars (CoinMarketCap.). Information that the Statistics Portal for Market Data (Statista), has also published. Following approval by the US Securities and Exchange Commission, the April 2021 IPO of Coinbase (COIN) (the first time a crypto company has done so, the world's leading cryptocurrency seller), shows the rise of digital currencies and forces a rethinking of their role in the future. Precisely, taking advantage of the increase in Bitcoin, active users of Coinbase grew 117% in the first quarter of 2021; revenues exceed \$ 1.8 billion²⁰. Although expectations were already high, the valuation of this new stock surpassed them, and The New York Times called it a "historic moment" for bitcoin and the entire cryptocurrency industry²¹. According to data from the website (Coin ATM Radar), there are currently around 15,600 cryptocurrency ATMs. Most of them are in the United States, with more than 12,900. Spain has 102 devices, which places it as the fifth country in the world with the most cryptocurrency ATMs²².

Now, the interest in this cryptocurrency and its revaluation comes mainly from institutional investors, mainly investment funds, whose clients are familiar with electronic currencies and find in bitcoin a way to diversify the risk in their portfolios and protect their assets. One of the reasons for this interest is that, with the crisis generated by the pandemic, central banks have intervened in financial markets through the implementation of zero or negative interest rates, the purchase of sovereign debt and the printing of currency. Investors fear that this monetary policy will lead the economies to a scenario of inflation and currency devaluation²³. It must be taken into account that, since the crisis of 2008, financial markets, with low interest rates, have hardly had assets — neither

²⁰ Nasdaq, "Riding Bitcoin Surge, Coinbase Active Users Grew by 117% in Q1 2021; Revenue Tops \$1.8B" (2021): <https://www.nasdaq.com/articles/riding-bitcoin-surge-coinbase-active-users-grew-by-117-in-q1-2021-revenue-tops-%241.8b-2021>

²¹ The New York Times, "Coinbase Valued at \$86 Billion in 'Landmark Moment' for Crypto" (2021): <https://www.nytimes.com/live/2021/04/14/business/stock-market-today>

²² Mena Roa, M., "España, quinto país del mundo con más cajeros de criptomonedas", *Statista* (2021): <https://es.statista.com/grafico/24241/paises-con-mas-cajeros-automaticos-de-criptomonedas-instalados/>

²³ Pintado, C., "En 2021 un bitcóin vale 40.000 dólares", *The Conversation* (2021): <https://theconversation.com/en-2021-un-bitcoin-vale-40-000-dolares-152249>

fixed income nor variable, neither gold or raw materials— with attractive returns comparable to crypto²⁴.

Likewise, as some authors point out²⁵, the adoption of this *blockchain technology* will be slow for various reasons. The first is the slowness of the system itself: the security benefits provided by a decentralized, replicated and distributed registry have as a counterpart its inefficiency when compared to a classic database, not only in processing time, but also in computing resources. Thus, the large amount of energy resources consumed is one of the most important criticisms²⁶. In addition, with a new version of the system, it is necessary to migrate all the data to preserve the history, which makes the updates very slow. As a member of the European Court of Auditors points out, all this is made even more difficult by problems related to privacy. Encryption is a solution, but it requires guarantees of preservation. All this without forgetting the questions of legality such as what is the value of smart contracts? Can blockchain traces be used in a court of law? A common regulatory framework is undoubtedly necessary (...) The problem of the legal framework is present in all countries, as well as the

²⁴ Carbó Valverde, S., “Criptoactivos en Bolsa. La salida a cotización de Coinbase muestra el auge de las monedas digitales y obliga a reconsiderar su papel en el futuro”, *El País* (2021): <https://elpais.com/economia/2021-04-15/criptoactivos-en-bolsa.html>

²⁵ Lander, L., Cooper, N., “Promoting public deliberation in low trust environments; Australian use cases”, *Social Science Research Network (SSRN)* (2017), DOI: <http://dx.doi.org/10.2139/ssrn.3077474>; <http://ceur-ws.org/Vol-1897/paper6.pdf>

²⁶ According to the University of Cambridge’s Bitcoin Electricity Consumption Index, the world’s most famous cryptocurrency is estimated to consume approximately 88 terawatt hours of electricity per year. In these, which are carried out through a process known as mining, voluntary Internet users record market movements in a decentralized way thanks to Blockchain technology. It is this process that causes the energy consumption of Bitcoin to be higher than that of many industrialized countries, such as Belgium, with an expenditure of 82 terawatt hours based on 2016 figures: Mena Roa, M., “Bitcoin consume más electricidad que toda Bélgica”, *Statista* (2020): <https://es.statista.com/grafico/18630/consumo-de-electricidad-anual-de-bitcoin/>. In a study in the journal *Nature Sustainability*, it is stated that the energy cost of generating this type of money through “mining” is equal to or greater than the cost of extracting the equivalent value in various metals: Krausse, M.J., Tolaymat, T., “Quantification of energy and carbon costs for mining cryptocurrencies”, *Nature Sustainability*, vol. 1 November 2018 (2018), DOI: <https://doi.org/10.1038/s41893-018-0152-7>. The problem is not the same in all countries: for example, mining in China generated four times more carbon dioxide per cryptocurrency in 2018 than mining in Canada, due to differences in electricity production: Martín, B., “El coste oculto de las criptomonedas”, en *El País*, 10/11/2018 (2018): https://elpais.com/elpais/2018/11/08/ciencia/1541673592_243753.html. In Iceland, digital currencies already used more energy than households in 2018: Keflavic, “La fiebre por minar bitcoins conquista Islandia. El consumo masivo de electricidad para fabricar criptomonedas suscita dudas por su efecto medioambiental. En el país nórdico, las divisas digitales usan ya más energía que las familias”, *El País*, 26/05/2018 (2018): https://elpais.com/economia/2018/05/24/actualidad/1527176354_921493.html

lack of guarantees of governance of a public infrastructure without central decision-making structures²⁷. All these limitations invite caution. And prudence is also the conclusion of the report of the *EU Blockchain Observatory Forum*²⁸.

In Spain there are modifications in its legislation, for example, the Market Law in March 2021 so that our stock regulator, the National Securities Market Commission —CNMV—, can consult and act in relation to cryptoactive companies, providers of regulated investment services and investors to make the circular on advertising crypto assets. However, *despite the existence of a panoply of diverse regulatory strategies, the ECB would have very few options to regulate cryptocurrencies due to its limited mandate, scope of competition and tools to achieve its objectives (...). These legal challenges arise from the potential effects of Central Bank Digital Currency (CBDC) that can undermine the mandate of the ECB or its basic and ancillary tasks, including its tasks of contributing to banking and financial stability. Also, constitutional and legal obstacles may eventually require amendments to the TFEU*²⁹.

III. The race for digital currency and its challenges

In June 2019, Facebook announced its own cryptocurrency called “Libra” (with a subsidiary company, Calibra, its virtual wallet) to be used through two social networks: *WhatsApp* and *Messenger*. They initially formed the *Libra Association*, now called the *Diem Association*. As J.L. Sánchez for ABC, was offered in order that its value remained stable thanks to the support of banks and electronic commerce companies, linking to different international currencies (thus avoiding the large economic fluctuations of other digital currencies such as *bitcoin*). Initially, it had the backing of companies such as Visa, Mastercard, Vodafone, PayPal, eBay, Spotify, Uber, Lyft, Booking Holdings (owner of Booking.com, Priceline.

²⁷ Cordero Valdiva, M., Blockchain en el sector público, una perspectiva internacional. *Revista Vasca de Gestión de Personas y Organizaciones Públicas*, n.º 6 zk./2019 (2019): https://www.ospi.es/export/sites/ospi/documents/documentos/Tecnologias-habilitantes/Blockchain_Sector_Publico_IVAP.pdf

²⁸ EUBlockchain: (The European Union Blockchain Observatory and Forum), *Blockchain and the GDPR*. European Commission (2018): https://www.eublockchainforum.eu/sites/default/files/reports/20181016_report_gdpr.pdf

²⁹ Nabilou, H., “Testing the waters of the Rubicon: the European Central Bank and central bank digital currencies”, *Journal of Banking Regulation*, 21(12) (2020), DOI:10.1057/s41261-019-00112-1: https://www.researchgate.net/publication/335290239_Testing_the_waters_of_the_Rubicon_the_European_Central_Bank_and_central_bank_digital_currencies

com and Kayak.com) and the Argentine e-commerce firm, Mercado Libre, among other. This initiative would allow the 2.44 billion monthly Facebook users to have access to exchange dollars and other international currencies, and could be used both for transactions between individuals — in the style of Bizum or Twyp— as well as for purchases in establishments³⁰. However, at present many of the indicated companies have disengaged from the project, which is now paralyzed and reformulated (it is no longer considered as a cryptocurrency —and actually being a global currency was its great bet, which differentiated it from the rest of the coins—)³¹.

From the beginning they made it clear that it was not going to be launched until regulators were satisfied³². In the US, they asked Facebook to stop the launch of the cryptocurrency³³, EU antitrust regulators investigated the matter, with France pointing out that it “threatened the

³⁰ Sánchez, J.M., “Facebook anuncia su criptomoneda Libra para usarse en WhatsApp y Messenger”, *ABC Redes*, 20/06/2019 (2019): https://www.abc.es/tecnologia/redes/abci-facebook-prepara-criptomoneda-apoyo-instituciones-bancarias-201906180143_noticia.html

³¹ The body now raises different *stablecoins* with each of them backed by an existing and regulated currency such as the euro, the British pound or the dollar. There will be a unique “currency” within Libra but it will not be a cryptocurrency as such, but a digital system made up of the already existing stable and regulated currencies. For example, when you send a pound you will actually be sending fractions of dollars or euros: Rus, C., “Libra, la criptomoneda respaldada por Facebook, se reestructura por completo y será más similar a PayPal que a Bitcoin”, *Xataka*, 16/04/2020 (2020): <https://www.xataka.com/empresas-y-economia/libra-criptomoneda-respaldada-facebook-se-reestructura-completo-sera-similar-a-paypal-que-a-bitcoin>

³² Marcus, D., *Hearing before The United States Senate Committee on banking, housing, and urban affairs. Testimony of David Marcus, head of Calibra, Facebook*, 16/07/2019 (2019): <https://www.banking.senate.gov/imo/media/doc/Marcus%20Testimony%207-16-19.pdf>

³³ In a letter to Facebook CEO Mark Zuckerberg, Chief Operating Officer Sheryl Sandberg, and Calibra subsidiary head David Marcus, Rep. Maxine Waters, chair of the House Financial Services Committee, calls for the temporary halt of the project while the United States Congress and regulators investigate potential risks: “We are writing to request that Facebook and its partners immediately accept a moratorium on any advancement of Libra, its cryptocurrency proposal, and Calibra, their digital wallet proposal. Apparently, these products could lend themselves to a completely new global financial system, based in Switzerland and destined to rival the monetary policy of the United States and the dollar. This raises serious problems of privacy, commerce, national security and monetary policy not only for the more than 2 billion Facebook users, but also for investors, consumers and the global economy in general” (02/07/2019): <https://financialservices.house.gov/news/documentsingle.aspx?DocumentID=404009>. Likewise, the US Federal Reserve declared that “Libra casts doubt on the financial and banking system worldwide”: Castillo, T., “Legisladores estadounidenses piden a Facebook que “cese inmediatamente” el lanzamiento de la criptomoneda Libra”, *Genbeta* (03/07/2019) (2019): <https://www.genbeta.com/actualidad/legisladores-estadounidenses-piden-a-facebook-que-cese-inmediatamente-lanzamiento-criptomoneda-libra>

monetary sovereignty” of the EU³⁴. As if this were not enough, in October 2019 the platform received severe blows when it lost the support first of PayPal and then of others such as Visa, MasterCard or eBay. Government concerns and the fact that Facebook was behind it (as much as they said they weren’t going to intervene) increased privacy concerns³⁵.

Meanwhile, China is already testing its own cryptocurrency. As it is the same State that creates it (the PBoC, People’s Bank of China), it is its own regulator. Four of its banks have already started testing it on mobile phones in 2020, also the electronic payments giant Ant Financial and the well-known operator Tencent are involved in this deployment. It is called DC / EP (*Digital Currency / Electronic Payment*) (DCEP). As Pastor points out, one of the curiosities of this coin is that mobile payments can be made even without connection to data networks. Just using NFC technology³⁶. Furthermore, the mobile phone will not have to be linked to a bank account, something essential that will allow even people who do not have access to the banking system to have their DC / EP wallet and access to this digital currency. The preliminary application is available for iOS and Android and allows you to show the initial options that will be available in this system: each user will have a DC / EP wallet on their mobile phone with which they can make payments through QR codes —a system already fully extended in China thanks to WeChat mobile payments—, and it will also allow you to send or receive money and even initiate transactions by putting two mobile phones in contact. It could be a stable currency, based on a blockchain with 1: 1 parity with the yuan and backed by the PBoC, offering the public a confidence that private digital currencies cannot obtain³⁷.

³⁴ Pastor, J., “Libra, la criptomoneda de Facebook, “amenaza la soberanía monetaria” de Europa según Francia”, *Xataka*, 12/09/2019 (2019): <https://www.xataka.com/criptomonedas/libra-criptomoneda-facebook-amenaza-soberania-monetaria-europa-francia>.

³⁵ Rus, C., “Libra, la criptomoneda respaldada por Facebook, se reestructura por completo y será más similar a PayPal que a Bitcoin”, *Xataka*, 16/04/2020 (2020): <https://www.xataka.com/empresas-y-economia/libra-criptomoneda-respaldada-facebook-se-reestructura-completo-sera-similar-a-paypal-que-a-bitcoin>

³⁶ NFC stands for “Near Field Communication” and, as the name suggests, enables short-range communication between compatible devices. Just like Bluetooth and Wi-Fi, and all sort of other wireless signals, NFC works on the principle of sending information over radio waves. Smartphones are the most common form of active NFC device. Public transport card readers and touch payment terminals are also good examples of this technology. NFC is a mainstream wireless technology, thanks to the growth of online payment systems like Samsung Pay and Google Pay.

³⁷ Pastor, J., “China prepara su criptomoneda digital oficial, llamada DC/EP, y cuatro de sus bancos ya están probándola en móviles”, *Xataka* (2020): <https://www.xataka.com/empresas-y-economia/china-prepara-su-criptomoneda-digital-oficial-llamada-dc-ep-cuatro-sus-bancos-estan-probandola-moviles>

DCEP will be used for purchases in all sectors throughout China. It will likely largely displace cash yuan (CNY) / renminbi (RMB) (RMB is the official currency of China, where it acts as the medium of exchange, and the yuan is the unit of account of the country's economic and financial system). *By mid-2020, DCEP has been piloted in the Chinese cities of Shenzhen, Chengdu, Suzhou and Xiong'an, potentially reaching more than 42 million people, more than the entire population of Canada. Elsewhere in China, DCEP is in the process of being a pilot in the restaurant and hospitality sectors, with foreign multinationals such as McDonald's, Starbucks and Subway. DCEP trials are already underway in China to reimburse travel costs for public sector employees*³⁸. Surely as "Libra" intended to do, the Chinese authorities will link the DCEP with important companies already known outside the country such as Alipay and WeChat Pau, and will use it for international trade, which can make it an alternative to the traditional international payment system, compared to the current one led by the United States with the USD, and for now the only one with a digital currency, with just a "click" on the mobile phone. The Belt and Road Initiative (BRI) offers, never better said, "the belt and the road" to extend the Yen (through the DCEP) as a medium of exchange in countries around the world, as a global currency. These concerns, for example the change in the position of the dollar at the international level, its challenges, have already had a broad resonance for many months in areas such as the *World Economic Forum*³⁹.

As the Chinese Government itself issues this digital currency, it can impose the most appropriate legal coverage for its purposes (remember, for example, its lax treatment of data protection), and as it is the work of the PBoC, it lacks opponents who claim a monopoly or threat to their sovereignty. The strong economic implication in its implementation is obvious, something not strange in all kinds of experimentation and development in innovation by the "Asian Dragon" that quickly gobbles up any technological opportunity. Its high competitiveness occurs as "The art of bian lian, or" face change "(an integral part of Sichuan opera in which a main character changes his mask to avoid being captured by

³⁸ Prud'homme, D. y Xu, J., "China's digital currency revolution and implications for global business strategy", Preprint, forthcoming in *London School of Economics Business Review*, August 2020 (2020), DOI: 10.13140/RG.2.2.18819.94240: https://www.researchgate.net/publication/343524884_China's_digital_currency_revolution_and_implications_for_global_business_strategy/link/5f2e87fd92851cd302e7e0b2/download

³⁹ Guedes P., Gopinath G., Tooze A., Ning Z., Centeno M., "Challenging the Dominance of the Dollar", en *World Economic Forum* (2020): Challenging the Dominance of the Dollar > World Economic Forum Annual Meeting | World Economic Forum (weforum.org)

enemies)⁴⁰. *The transformation is fast and surprising, the new face clearly different. In the business theater, Chinese artists are undergoing a rapid transformation of their own as they seek to evolve from underground producers to the face of world-leading innovation*⁴¹. Will this situation force other countries to launch their own digital currency? Even without certain guarantees, reservations and regulations because of the speed that the response will require?

Japan is also restless about the race towards the DCEP (Chinese digital currency). But will Japan be able to counter the virtual yuan so quickly? The concept of CBDC is not something new, just like that of cryptocurrencies (CBDC) is a form of digital fiat money that is issued by the central bank of a country and as such legal tender value in that nation, that they are not cryptocurrencies or bitcoin). One of the first mentions of a CBDC was made by James Tobin, in his article entitled: “*Financial innovation and deregulation in perspective*” published by the Institute of Monetary and Economic Studies of the Bank of Japan in 1985⁴². Therefore, it was an idea that already existed, but that did not materialize, probably due to the need for control of traditional banking entities, and the inconveniences that they anticipated in the financial system. In February 2019, the Bank of Japan (BOJ) released several reports on CBDCs. For example, a paper written by a BoJ official and a University of Tokyo professor studied different ways to implement a CBDC like the digital yen, and the hypothetical consequences of those approaches⁴³, or another more focused on the legal problems that would arise⁴⁴.

⁴⁰ Chinese Embassy in Spain, “*Un artista callejero interpreta Bian Lian, o cambio de rostro, un antiguo arte dramático chino que forma parte de la Ópera de Sichuan*” (video posted on the official twitter of the Chinese Embassy in Spain) (2020): <https://twitter.com/chinaembesp/status/1299324569900249088?lang=el>

⁴¹ Prud’homme, D. y Von Zedtwitz, M., “The Changing Face of Innovation in China”, *MIT Sloan Management Review* (2018): <https://sloanreview.mit.edu/article/the-changing-face-of-innovation-in-china/>

⁴² Tobin, J., “Financial Innovation and Deregulation in Perspective”, *Bank of Japan Monetary and Economic Studies*, 3 (1985): <https://www.imes.boj.or.jp/research/papers/english/me3-2-3.pdf>

⁴³ Yanagawa, N. y Yamaoka, H., Digital innovation, data revolution and central bank digital currency, *Bank of Japan Working Papers Series*, n.º19 (2019): https://www.boj.or.jp/en/research/wps_rev/wps_2019/data/wp19e02.pdf

⁴⁴ Hayashi, K.; Takano, H.; Chiba, M.; Takamoto, Y., “Summary of the Report of the Study Group on Legal Issues regarding Central Bank Digital Currency”, *Bank of Japan Research Laboratory Series*, n.º19 (2019): (Research Lab) Summary of the Report of the Study Group on Legal Issues regarding Central Bank Digital Currency: 日本銀行 Bank of Japan (boj.or.jp)

In February 2020, Akira Amari, former Minister of Economy and member of the ruling Liberal Democratic Party, led a group of lawmakers who called on his government to push for the inclusion of digital currencies on the G-7 agenda to be held from 10-12 June at Camp David (Washington) as was done, although it was already a concern that had been discussed in different international forums. The case of Japan is especially particular, because it is a country that relies heavily on physical money and hardly makes electronic payments. The Japanese Prime Minister declared that by 2025, 40% of payments would be made without cash, and the best method for Japan to carry out this transformation according to some authors, is through Bitcoin technology⁴⁵.

The BOJ still has no imminent plans to issue digital currency; it is the same as other countries such as the United States, which continues to evaluate the potential implications (security, monetary policy, etc.), giving a wide margin of opportunity for China. In addition, in the case of Japan, it would imply changing the culture of the cash-loving country, since only in recent years, and due to the Olympic Games, a strong advertising campaign is being carried out so that citizens simply buy through a credit card. Furthermore, *the Central Bank of South Korea published in February 2021 a book on the legal issues that would need to be addressed to ensure the smooth operation and usefulness of a future central bank digital currency. The digital currency would be based on blockchain technology and allow people to send money directly to each other without the need to go through a bank or other intermediary, thus reducing transaction costs*⁴⁶. Also, on January 22, 2020, the Hong Kong Monetary Authority (HKMA) and the Bank of Thailand (BOT) officially announced the results of a joint CBDC research project, called the *Inthanon-LionRock Project*. Moreover, to publishing a joint press release⁴⁷, banks have released a detailed 90-page report⁴⁸, providing a comprehensive analysis of the potential risks and

⁴⁵ Orcutt, M., “La apuesta de sustituir el efectivo por blockchain se decide en Japón”, *MIT Technology Review* (2019): <https://www.technologyreview.es/s/10900/la-apuesta-de-sustituir-el-efectivo-porblockchain-se-decide-en-japon>

⁴⁶ Huillet, M., “El Banco de Corea publica un libro sobre las cuestiones jurídicas de su moneda digital del banco central”, *Cointelegraph* (2021): <https://es.cointelegraph.com/news/bank-of-korea-publishes-book-on-central-bank-digital-currency-s-legal-issues>

⁴⁷ Bank of Thailand, “Joint press release *The Outcomes and Findings of Project Inthanon-LionRock and the Next Steps (BOT and HKMA)*”: https://www.bot.or.th/English/FinancialMarkets/ProjectInthanon/Pages/Inthanon_LionRock.aspx

⁴⁸ Bank of Thailand and Hong Kong Monetary Authority, “*Inthanon-LionRock Leveraging Distributed Ledger Technology to Increase Efficiency in Cross-Border Payments*” (2020): <https://www.bot.or.th/English/FinancialMarkets/ProjectInthanon/Documents/Inthanon-LionRock.pdf>

benefits of CBDCs for real-time money transfers, liquidity management, regulatory compliance, and other aspects of finance⁴⁹.

The race for digital currency has been unleashed. Many central banks around the world prepare their digital currencies, given the growth of cryptocurrencies, technological developments, online purchases with the growing use of electronic banking to make payments (specially in retail payments - the pandemic has accelerated this trend and has even incorporated new users)⁵⁰, and the fear of the systemic risk of a private digital currency in the hands of billions of users, also anticipating other similar currencies and therefore in support of European sovereignty and the security of citizens (in response to unsupervised private solutions). The CBD is a central bank digital currency. The launch of the central bank digital currency (CBDC) will change the model of commercial banking. In the EU, the European banking regulator has not made a formal decision to launch its currency in digital format. The ECOFIN Council of Economy and Finance Ministers is pushing to accelerate such a launch. Thus, it will be under the control of the Eurosystem, with little risk in addition to being accessible in a harmonized manner through supervised entities, convertible at par. This may promote the international role of the euro, and be used, with the necessary changes, as a monetary policy tool. New challenges also arise furthermore to offering this service: harmonizing accessibility criteria and developing its regulation; increase security in procedures ensuring the protection of user data; creating entities for supervision, control, and, where appropriate, sanction. In other words, design it carefully. Possible design features were reviewed in the Eurosystem report⁵¹.

According to one of the members of the executive committee of the ECB, if it is not properly designed, its main strengths — security and liquidity— could affect monetary and financial stability on three fronts: first, financial intermediation and allocation of capital in normal time; second, financial stability in times of crisis; and third, the operation of the international financial system. *It is also worrying when it points out that beyond these design adaptations, economic thinking about the possible impact of a digital euro on financial intermediation is not clear (...) and*

⁴⁹ Partz, H., “Proyecto piloto de Hong Kong y Tailandia basado en DLT para pagos transfronterizos”, *Cointelegraph* (2020): <https://es.cointelegraph.com/news/hong-kong-and-thailand-pilot-dlt-based-project-for-cross-border-payments>

⁵⁰ European Central Bank, “*Study on the payment attitudes of consumers in the euro area (SPACE)*” (2020a): https://www.ecb.europa.eu/pub/pdf/other/ecb_spacereport202012~bb2038bbb6.en.pdf?05ce2c97d994fbef1c93213ca04347dd

⁵¹ ECB (European Central Bank), “Report on a digital euro” (2020b): *Report on a digital euro (europa.eu)*

*that the risks for financial intermediation of issuing a digital euro are potentially more pronounced in times of crisis*⁵². In fact, if not designed correctly, in times of crisis a digital euro could accelerate the “digital runs” of commercial banks towards the central bank. This risk could even be self-fulfilling, leading savers to reduce their bank deposits and amplifying volatility also in normal times⁵³.

In the 2019 ECB report on the European banking liquidity stress test, of the more than 9,000 existing banks in Europe, only 103 were able to face the stress test. In the extreme scenario, a loss in the value of its clients’ deposits equivalent to 27% of the bank’s funds is contemplated. In this scenario, only 26 of the 103 European banks suggested that they could hold out for just over 6 months. The crypto world supposes a breach of the financial system. A way by which money leaves the circuit of banks to land in currencies such as bitcoin, or another similar that becomes operational. As Alberto García-Lluis points out, this flight of money and its conversion into crypto, poses a direct threat to commercial banking. Fiat money is worth less and less due to the monetary policies of the ECB and the Federal Reserve Board (FED). The financial system is sustained on the confidence of the society, and a loss of between 5.1% and 15% of the deposits of the clients of the banks would weaken the financial sector, and would raise the systemic risk to very dangerous levels. For this author, the alternative is *to reduce the risks of convertibility of the financial system, eliminating paper money and forcing commercial banks to transform their business model, freeing up custody of their clients’ deposits. This would reduce the systemic liquidity risks, and it frees the bank from a very important part of the abusive costs of its regulation and compliance*⁵⁴.

IV. Other conclusions

These and other concerns have generated intense debates in various areas, such as the G7, *World Economic Forum*, EU Parliament, BOJ, Hong Kong Monetary Authority, Bank of Thailand — among others —, in relation

⁵² Panetta, F., “Evolution or revolution? The impact of a digital euro on the financial system, Bruegel online seminar”, EBC (2021): *Evolution or revolution? The impact of a digital euro on the financial system (europa.eu)*

⁵³ Kumhof, M. y Noone, C., “Central bank digital currencies — design principles and balance sheet implications”, *Staff Working Papers*, No 725 (2018) Bank of England: *Central bank digital currencies — design principles and balance sheet implications*.

⁵⁴ García-Lluis Valencia, A., ¿Acelerará el BCE el lanzamiento de su euro digital?, *Blockchaineconomia.es* (2021): *¿Acelerará el BCE el lanzamiento de su euro digital? (blockchaineconomia.es)*.

to changes in the position of the dollar at the international level; the potential implications in aspects of monetary policy, security, liquidity management; even about China's leadership also at the political level. Let us remember that a large part of the external debt of some countries is in the hands of China, apart from its relevant investments, especially in the East and the Mediterranean in a strategy that seems to want to Balkanize Europe, with a clear geostrategic component. The EU, the US or other countries such as Japan, Korea, etc., are already making attempts to counteract the virtual yuan.

Both the ECB and numerous authors point out that to preserve stability, the digital euro should be designed in a way that prevents it from being used as a form of investment. Panetta and Bindseil point to several possibilities to avoid it such as the idea of limiting the amount of digital euros that individual users can own. This would avoid large inflows of bank deposits, as well as volatile portfolio inflows from abroad, to the central bank. One way to do this, while allowing the use of the digital euro for important transactions, would be to require that incoming funds that exceed a user's limit be redirected to a bank account. The link between private money and digital euro accounts would avoid fragmentation of the user's liquidity and would also be useful for payments made. Large outbound transactions could be made by transferring a combination of digital euro and private money.

Thus, the digital euro launched by the ECB will be a liability of the central bank, while Fiat money is a liability of commercial banks. That will be the biggest change. When the digital euro goes directly from the issuer to the citizen, commercial banks will lose their savings capture, and will have to look for other sources of financing. There are formulas to stop such a drastic change. The commercial bank can be the official distributor of *wallets* prepared to receive the European currency. Limits can be placed on the holding of digital euros, the type of payments with this currency or the volume of payments. They are formulas shuffled by the ECB to lengthen the transition, while commercial banking prepares. Another option would be to establish a penalizing remuneration for individual users' holdings of digital euros above a certain threshold⁵⁵. In this way, the digital euro could alleviate a very abrupt change and not being a speculative currency, as it has the backing of the EBC (the digital currency will be an electronic form of money — mainly used as a means of payment— issued by the Eurosystem ECB and national central banks), will guarantee the value of

⁵⁵ Panetta, F. y Bindseil, U., Central bank digital currency remuneration in a world with low or negative nominal interest rates, *VoxEU* (2020): *Central bank digital currency remuneration in a world with low or negative nominal interest rates*

money, even if it is digital, and will be able to maintain the stability of the euro; a “simple, universally accepted, reliable and risk-free means of payment”.

China was the first country to introduce fiat money and the concept of legal tender before fiat money. The history of paper money dates back to more than 2000 years ago in China, where bills of exchange (used as money) were known as “*flying money*.” We are currently living a new paradigm in the economy, where knowledge is decentralized to areas that do not come from the financial tradition, and where the use of technology intensifies, for which it is necessary to have technical knowledge and computer tools for which not all they have the same ease of access, displacing traditional intermediaries, reducing competition in financial markets and limiting consumer options. Electronic money, mobile payments and, more recently, cryptocurrencies herald transformative changes in the financial and monetary systems. Will technology companies be able to impose their objectives, even above the interests and decisions of important States? Will this make us dependent? Likewise, China once again bursts onto the international scene with tests of its new virtual currency that can distort the financial system of many countries, threatening even more the international order. Will the European Union and the US succeed in subverting these inconveniences? Will they do it with their own virtual currencies?

There is a confrontation between blocks, where, once again, geopolitics prevails, and where international concertation is essential. Above all, considering that a flawed implementation can have a negative impact not only domestically, but also globally. Entities such as the ECB should: 1) monitor market developments; 2) act preventively in the face of problems foreseen in the financial scenarios identified in the nearest future (for example, by carrying out tests such as “Smart Money” focused on the experimentation of technical aspects and to analyze the different design options of the digital euro); 3) solve the problems arising from new events (for example, preventing the digital euro from causing deposits to shift away from commercial banks); 4) encourage public-private cooperation in the design of digital currencies; that brings stability to the system and, at the same time, allows private actors to develop business models in a competitive space (this would partly mitigate the risks related to the emergence of new privately owned digital currencies).

On the battlefield of global digital competition, countries and principal axis (US-EU-Asia Pacific), seek the advantage of being pioneers in setting standards and fostering a development model. However, even when China intends to increase the yuan’s position as an international currency, it may also pose not only a danger, but a greater challenge to raise the internatio-

nalization of the euro. Some of the most important entities, such as those mentioned throughout this paper, should reach proposals or agreements between the EU, the US and Asia Pacific, which would allow to coordinate a harmonized global response to digital currencies. Multi-CBDC agreements would have the potential to improve efficiency, for example, by reducing the costs of cross-border transactions. Many evidences, reflections, concerns and even answers have been shown in this paper, although, without doubt, the most certain answer to these questions is that the monetary policy and the international financial system will take a vertiginous turn in just a few months.

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The roles and strategies of ASEAN in the Belt and Road Initiative (BRI)

*El papel y las estrategias de la ASEAN
en la Iniciativa de la Franja y la Ruta (IFR)*

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Summary: I. Introduction.—II. Theoretical background.—III. Roles and strategies of ASEAN and China with the BRI. III.I. ASEAN's roles and strategies for the BRI. III.II. Chinese role and strategies of the BRI. III.III. Financing and risks of the BRI in participating countries.—IV. Analysis on the BRI and possible impacts of the COVID-19 pandemic on the BRI. IV.I. The BRI in ASEAN and China. IV.II. Possible impacts of the COVID-19 pandemic on the BRI.—V. Conclusion.

Abstract: Under the Belt and Road Initiative (BRI), China focuses on the ASEAN as part of land bridge connecting China to Southeast Asia, the Indian Ocean, and the China-Indochina Peninsula Corridor sea route that is the comprehensive sea route between China, South China Sea, Indian Ocean, and Europe. On the other hand, ASEAN member nations regard the BRI as an avenue to improve connectivity with their poor infrastructure development which will generate trade and investment increase in the region particularly through improved logistics. Accordingly, ASEAN member nations are keen to develop their infrastructure projects in collaboration with Chinese companies and funding agencies mainly in the forms of joint venture. The Asian Development Bank (ADB) estimates that the total infrastructure investment needs in the ASEAN from 2016 to 2030 will be between USD 2.8 trillion with baseline estimate to USD 3.1 trillion with climate adjusted estimate. This paper aims to argue how China and the ASEAN can be interacted by the BRI and what are impacts of the BRI on the region. Furthermore, it analyzes which roles do the BRI play in building the region between China and the ASEAN member nations. Last, but not least, it also focuses on Chinese national strategy how to implement the BRI in the region.

Keywords: BRI, trade and investment, regional integration, economic growth, development strategy, COVID-19 pandemic.

Resumen: *Mediante la Iniciativa Franja y Ruta (IFR), China centra su atención en la ASEAN como parte del puente terrestre que conecta China con el sudeste asiático, el Océano Índico y la ruta marítima del corredor entre China y la península de Indochina, que constituye la vía marítima integral más amplia entre China y el Mar del Sur de China, el Océano Índico y Europa. Por otra parte, los países miembros de la ASEAN consideran la IFR como una vía para mejorar la conectividad, dado su pobre desarrollo en infraestructuras, lo que generará un aumento del comercio y de la inversión en la región, principalmente a través de una mejor logística. En consecuencia, los países miembros de la ASEAN están interesados en desarrollar sus proyectos de infraestructura en colaboración con empresas y agencias de financiación chinas, principalmente mediante la constitución de empresas conjuntas. El Banco Asiático de Desarrollo (BAD) estima que las necesidades totales de inversión en infraestructura en los países ASEAN, entre 2016 y 2030, se situarán en torno a USD 2,8 billones como estimación de referencia, y USD 3,1 billones como estimación ajustada al clima. Este artículo analiza las posibles interacciones entre China y la ASEAN en el marco de la IFR y su posible impacto en la región. Además, analiza el papel que la IFR puede jugar en la creación de la región entre China y los países miembros de la ASEAN. Por último, pero no menos importante, también se centra en la estrategia nacional china sobre cómo implementar la IFR en la región.*

Palabras clave: *IFR, comercio e inversión, integración regional, crecimiento económico, estrategia de desarrollo, pandemia COVID-19.*

I. Introduction

In 2013, Chinese government launched the new silk-road project known as One Belt and One Road that turned to the Belt and Road Initiative (BRI) in 2018¹. President Xi Jinping initially regarded the BRI as the project of 21st Century that has assumed enormous importance. It is a major global project bolstering to close a large infrastructure gap constraining trade, openness and prosperity. China and other economies have signed cooperation agreements that have been rising as a share of the world economy. The BRI development strategy aims to build connectivity and cooperation across six main economic corridors encompassing China and Indian subcontinent, and Indochina. Asia needs USD 26 trillion in infrastructure investment to 2030, including climate related needs².

Chinese government expects that its investment in building infrastructure generates positive impacts on countries involved. Mutual benefits among all participating countries in the BRI are a core feature of the BRI, which will support to develop markets for China's products in the long term and to alleviate industrial excess capacity in the short term. The BRI set the priority to build hardware-oriented infrastructure such as power, transport, telecommunication, and water and sanitation. It is supervised by the leading group of the National Development and Reform Commission (NDRC) coordinating all projects including inter alia with the Ministry of Commerce (MOFCOM), the Ministry of Foreign Affairs (MFA), and the Development Research Center of the State Council (DRC).

BRI investment projects are estimated to over USD 1 trillion of outward funding for foreign infrastructure over the 10-year period from 2017. In order to finance the BRI, Chinese government formed the Silk Road Fund (SRF) supported by state-directed development and commercial banks. Additionally, China has approached to international investment including multilateral development banks as well as private and public partnerships³. The BRI has geopolitical goals associated in linking of its neighbors economically more closely to China. At the same time, China regards the BRI as a long term economic strategy focusing on the economic aspects of the initiative for itself and other participating economies, both those in the Asian region and beyond⁴.

¹ OECD, China's Belt and Road Initiative in the Global Trade, Investment and Finance Landscape, OECD Business and Finance Outlook (Paris: OECD, 2018).

² Asia Development Bank, Meeting Asia's Infrastructure Needs (Manila: Asia Development Bank, 2017), www.adb.org/sites/default/files/publication/227496/special-report-infrastructure.pdf

³ PwC, China's New Silk Route: The Long and Winding Road (London: PwC, 2016), <https://www.pwc.com/gx/en/growth-markets-center/assets/pdf/china-new-silk-route.pdf>

⁴ OECD, *op. cit.* (2018).

President Xi announced that China would actively promote international co-operation through the Belt and Road Initiative⁵. In doing so, it will achieve policy, infrastructure, trade, financial, and people-to-people connectivity and thus build a new platform for international co-operation to create new drivers of shared development. Furthermore, the BRI involves education, cultural and scientific exchanges to help other countries learn from China's development experience. For it, China has launched the Centre for International Knowledge on Development and China's National Plan on Implementation of the 2030 Agenda for Sustainable Development along with other related initiatives⁶.

Chinese government strongly intends to implement the comprehensive strategy of building a moderately prosperous society in all aspects that deepens reforms and advances the law-based governance of China. At the same time, it strengthens the Communist Party self-conducted and seeks coordinated development in the economic, political, cultural, social, and ecological fields by launching the BRI that is based on the guidance of the development concept for innovative, green, open and shared development.

Under the BRI, China regards ASEAN as a part of the land bridge connecting China to Southeast Asia, South Asia, the Indian Ocean, and the China-Indochina Peninsula Corridor sea route that connects China, South China Sea, Indian Ocean, and Europe. ASEAN member nations also see the BRI as a great opportunity to improve connectivity with infrastructure development that will eventually increase trade and investment in the region through improved logistics. Accordingly, ASEAN member nations are ready to develop infrastructure projects in cooperation with Chinese construction companies and financing agencies mainly through joint ventures⁷.

This paper focuses on the strategies of ASEAN and China how the both parties could be interacted through the BRI. Furthermore, it investigates which roles can the BRI play in creating a region building in Southeast Asia particularly in ASEAN. Last, but not least, it also analyzes whether

⁵ Xi, J. P., Secure a Decisive Victory in Building a Moderately Prosperous Society in all Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era, Delivered at the 19th National Congress of the Communist Party of China, 18 October 2017.

⁶ Chinese Government, China's National Plan on Implementation of the 2030 Agenda for Sustainable Development (Beijing: Chinese Government, 2016), www.fmprc.gov.cn/web/ziliao_674904/zt_674979/dnzt_674981/qtzt/2030kcxzfzc_686343/P020170414689023442403.pdf

⁷ Jusoh, S., The Impact of BRI on Trade and Investment in ASEAN, in CIMB ASEAN Research Institute (ed.) China's Belt and Road Initiative (BRI) and Southeast Asia (Kuala Lumpur: CIMB CARI, 2018), 10-18.

ASEAN and the BRI could generate win-win processes in terms of trade, investment, and economic growth in the region or not. To the last, it forecasts how the COVID-19 pandemic affects the BRI in ASEAN. To find answers to these questions, critical analysis of literature, inference and statistical data analysis are employed.

II. Theoretical background

The East Asian approach on the economic integration and regional cooperation processes differs from the European model. The East Asian regionalism has not been driven by inside, but outside. It can be characterized as loose economic cooperation and informal, consensus based, no legal binding, and high reluctance to engage political integration and multilateral security cooperation. Even ASEAN as the only one formalized institution as an economic common market since 2015 in East Asia prefers to national interest, state sovereignty, and equality among the member states.

In terms of regional economic integration process, the EU adopted Balassa's approach, on which is composed of five steps such as free trade agreement, tariff union, common market, economic union, and political union⁸. The political union is the last phase, and the regional integration process is fully completed and becomes a united nation. At present, the EU is in the fourth stage and heading for the political union in the future although there are many struggles remained and no one knows exactly when it will be completed.

Compared with Europe, East Asia is under-institutionalized until now except ASEAN, although there are multilateral economic cooperation formats between ASEAN and the three major East Asian economies such as China, Japan, and South Korea in the names of ASEAN Plus Three or ASEAN Plus One. However, creating regional institutionalization in East Asia is not new. Contrary to the single institution oriented approach in Europe, East Asia has searched for a number of regional institutions that could deal effectively with various regional issues⁹. As such, multiple institutions without systemic linkages may continue to increase in the region¹⁰. There are other explanations about East Asian approaches, which are

⁸ Balassa, B. Towards a Theory of Economic Integration, *International Review for Social Sciences*, 14:1 (1961): 1-17.

⁹ Pempel, T. J. Soft Balancing, Hedging, and Institutional Darwinism: The Economic Security Nexus and East Asian Regionalism, *Journal of East Asian Studies*, 10 (2010): 209-238.

¹⁰ Zhao, S., Soft versus Structural Regionalism: Organizational Forms of Cooperation in Asia Pacific, *The Journal of East Asian Affairs*, 12:1 (1998): 96-134.

unforeseen nature of regional institutionalization representing regionalization instead of creating regionalism. These point out that East Asian institutions have evolved in decentralized, contradictory, and ad hoc ways instead of deepening and solidifying regionalism in Europe. It is rather soft regionalism or informal regionalism¹¹.

On the contrary, it is also fully possible that East Asian regionalism anticipates that the evolutionary dynamics of institutionalizing East Asia will take place in coming decades because East Asian countries' turn to bilateral FTAs shows their increasing interests in institutional engagement. In fact, a number of bilateral FTAs completed in the 2000s created a lattice regionalism in East Asia that will ultimately take from bi-lateral to plurilateral and regional path toward institutionalization. By time, several bilateral FTAs will turn to region-wide FTAs without any regional center because interlocking and overlapping FTAs generate inevitably high transaction costs¹².

In fact, East Asian countries joined multiple institutions whose memberships overlap with each other because they were not able to develop a core regional institution being the basis for regional integration and cooperation in terms of economy and politics. Moreover, regional institutions in East Asia have developed in the areas of individual issue without creating systematic linkages¹³. As a result, there is no regional institution that deals with economies, politics, and security comprehensively in the whole region¹⁴.

Accordingly, the theory of plurilateral and regional path toward institutionalization in East Asia is adopted to explain East Asian economic integration processes particularly focusing on ASEAN and the BRI in this study. The reason for it is that the plurilateral theory can explain East Asian dynamic economic development more comprehensive than the theories of soft regionalism or informal regionalism.

¹¹ Katzenstein, P., Introduction: Asian Regionalism in Comparative Perspective, in Katzenstein, P. & Shiraiishi, T. (eds.) *Network Power: Japan and Asia* (Ithaca: Cornell University Press, 1997), 1-46.

¹² Dent, C.-M., Networking the Region? The Emergence and Impact of Asia Pacific Bilateral Free Trade Agreement Projects, *The Pacific Review*, 16:1 (2003): 1-28.

¹³ Katzenstein, P., *A world of Regions: Asia and Europe in the American Imperium* (Ithaca: Cornell University Press, 2005).

¹⁴ Pempel, T. J., Regional Institutions and the Economy-Security Nexus, in *The Economy Security Nexus in Northeast Asia*, Pempel, T. J. (ed.) (London: Routledge, 2013): 146-163.

III. Roles and strategies of ASEAN and China with the BRI

III.I. ASEAN's roles and strategies for the BRI

Association of South East Asian Nations (ASEAN) established in 1967 with the signing of the ASEAN Declaration known as the Bangkok Declaration expanded from its founding fathers, such as Indonesia, Malaysia, the Philippines, Singapore and Thailand to 10 member nations by including Cambodia in 1999. It mainly aims to accelerate the economic growth, social progress, and cultural development in the region through joint endeavors in the spirit of equality and partnership. In their roles and relations with one another, ASEAN has adopted several fundamental principles in the Treaty of Amity and Cooperation in Southeast Asia (TAC) in 1976. One of the fundamental principles is mutual respect for the independence, sovereignty, equality, and territorial integrity of all member nations.

At the 9th ASEAN Summit in 2003, the ASEAN leaders resolved to establish an ASEAN community and affirmed their strong commitment to accelerate the establishment of an ASEAN community by 2015. They signed the CEBU Declaration on the Acceleration of the Establishment of an ASEAN Community by 2015 in the 12th ASEAN Summit in 2007. The ASEAN Community is composed of the three pillars such as the ASEAN Political-Security Community, ASEAN Economic Community, and ASEAN Socio-Cultural Community. Each pillar has its own blueprint and forms its roadmap for the ASEAN Community. Furthermore, ASEAN leaders, at the 30th Anniversary of ASEAN in 2017, adopted the ASEAN Vision 2020, which agreed on shared vision of ASEAN as concert of member nations, outward looking, living in peace, stability and prosperity, close partnership in dynamic development and in a community of caring societies¹⁵.

In order to develop political, economic, and cultural cooperation within ASEAN member nations, ASEAN requires improved infrastructure to generate economic growth through increased trade, investment, competitiveness, and connectivity not only in the region but also with the rest of the world. The improved infrastructure development is very significant to increase the amount of ASEAN trade, inflow of foreign capital investment, and the mobility of labor that increases eventually connectivity between ASEAN and China through the BRI. The Asia Development Bank (ADB) estimated that the total infrastructure investment needs in ASEAN could be

¹⁵ See <https://asean.org/asean/about-asean/overview/>, 2021.

between USD 2.8 trillion as a baseline estimate and USD 3.1 trillion as a climate-adjusted estimate from 2016 to 2030. The infrastructure investment contributed to increasing the amount of ASEAN trade from USD 4 trillion in 2010 to USD 5 trillion in 2017¹⁶. The total trade is expected to increase further as ASEAN grows from the sixth largest economy in the world in 2017 to the fourth largest economy in the world by 2050 with an expected average economic growth of 5.25 percent between 2016 and 2020¹⁷.

The connectivity of Chinese supply chain has risen with the BRI participating nations over the past decade in general, and with ASEAN member nations in particular. It reflects a continuation of outsourcing to China from high-income economies in the region such as Singapore and Malaysia, while Chinese firms also outsource low value added processes to the region's low-income economies such as Cambodia and Laos. By intensifying this process, many ASEAN member nations such as Singapore, Vietnam, Thailand, Malaysia, Cambodia, and Myanmar become among the top ten most connected to China via trade. China deepens trade relations with ASEAN economies by completing the ASEAN-China Free Trade Agreement (ACFTA) in 2010 that was signed by ASEAN as the first FTA with external parties. ASEAN and China decided to upgrade the ACFTA in 2014 as a part of BRI that came into effect in 2016. Since then trade and investment flows have accelerated¹⁸ (See table 1).

Among ASEAN member nations, low cost economies such as Cambodia, Myanmar, and Vietnam outsourcing from China have been benefited by increasing their economic growth in foods, textiles, electrical and machinery assembly. China's increasingly changing demographics and rapidly rising wage costs have pushed such a trade connectivity that will be deepened in the years ahead. At the same time, higher income economies in ASEAN, such as Malaysia and Singapore play key roles in upgrading China's manufacturing sectors. Malaysia supplies microchip production, while Singapore exports chemicals, plastics, and rubber products that contributes to China's manufacturing shift into higher value added sectors.

¹⁶ ADB, *op. cit.* (2017): 5-20.

¹⁷ The ASEAN Secretariat, ASEAN Statistical Yearbook, 2018 (Jakarta: ASEAN Secretariat, 2018).

¹⁸ Yan, J., The Belt and Road Initiative in Southeast Asia, in CIMB ASEAN Research Institute (ed.) China's Belt and Road Initiative (BRI) and Southeast Asia (Kuala Lumpur: CIMB CARI, 2018): 4-9.

Table 1
ASEAN Trade in Goods by trading Partners from 2008 to 2017
(As of USD Million)

TRADING PARTNER	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
ASEAN	471,827	376,979	502,864	582,938	605,640	617,752	608,114	535,380	516,575	590,227
TRADING PARTNER	1,429,145	1,160,817	1,491,968	1,806,793	1,865,437	1,903,785	1,913,965	1,737,481	1,722,025	1,984,062
Australia	53,063	43,978	57,399	67,443	70,379	68,975	73,289	57,493	52,879	59,140
Canada	10,727	9,028	10,455	12,280	11,932	13,064	12,809	12,655	12,632	13,817
China	196,706	178,049	234,296	293,103	316,984	348,325	362,645	363,497	368,694	441,009
EU-28	170,626	171,317	202,800	238,401	240,708	243,896	245,277	230,655	233,564	261,402
India	49,304	39,171	56,665	74,145	71,133	68,169	67,836	60,166	58,597	73,630
Japan	214,725	160,956	218,700	255,998	264,035	239,942	228,486	202,800	202,408	219,258
Korea, Republic of	78,313	74,722	101,744	124,403	130,974	134,400	130,925	120,567	124,455	153,680
New Zealand	7,828	5,371	7,605	9,039	9,283	9,783	10,698	8,753	7,900	9,524
Russian Federation	9,784	6,756	12,667	16,803	18,091	19,925	22,525	13,969	11,957	16,790
USA	185,203	148,668	179,220	195,879	198,087	203,127	209,290	210,582	211,807	234,269
Rest of the World	452,865	332,801	410,417	519,300	533,831	554,178	550,185	456,345	437,133	501,542
TOTAL	1,900,972	1,537,796	1,994,831	2,389,731	2,471,077	2,521,537	2,522,078	2,272,862	2,236,601	2,574,288

Source: ASEAN Secretariat, 2018.

Table 2
Foreign Direct Investment Inward Flows in ASEAN by Source Countries from 2008 to 2017 (USD Million)

SOURCE COUNTRY	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
ASEAN ^{1/}	8,987.5	8,807.8	16,306.4	15,806.3	23,385.7	18,491.5	22,314.9	20,809.9	25,894.5	26,975.0
REST OF THE WORLD	40,025.1	34,557.7	91,867.8	71,858.2	93,122.9	103,255.5	107,987.5	100,902.0	96,656.8	108,645.6
Australia	1,016.6	124.7	3,958.6	4,993.6	752.2	2,185.4	4,516.6	1,449.3	1,574.6	2,099.4
Canada	538.2	1,344.4	1,303.3	927.4	3,878.4	793.7	2,259.7	1,121.1	1,037.9	954.0
China	732.7	2,068.7	3,488.6	7,185.1	7,968.3	6,327.2	6,254.6	6,620.1	11,275.5	11,370.9
EU-28	10,408.7	5,659.9	21,145.2	24,404.9	-2,026.4	19,764.5	28,800.0	22,317.8	35,950.7	24,858.4
India	1,441.5	283.1	3,801.2	-2,060.6	7,290.0	1,829.0	2,239.4	1,476.2	-19.7	1,730.9
Japan	5,512.3	3,451.1	12,987.0	7,798.0	14,609.3	24,744.7	13,014.0	13,314.3	13,767.4	13,414.6
Korea, Republic of	1,397.0	1,804.1	4,319.3	1,773.9	1,293.9	4,311.9	5,275.1	5,424.9	6,542.0	5,058.7
New Zealand	-45.8	-140.8	339.5	24.6	-945.9	264.1	501.8	-11.6	176.8	326.2
Russian Federation	85.5	141.5	54.5	10.1	189.1	608.0	-113.5	-24.4	63.4	47.7
USA	3,685.2	5,180.8	13,682.1	8,313.9	18,971.2	11,484.5	21,161.7	23,180.2	18,848.3	4,322.2
OTHERS ^{2/}	15,253.2	14,640.2	26,788.7	18,487.3	41,142.8	30,942.6	24,076.2	26,034.2	7,439.8	44,462.7
TOTAL	49,012.6	43,365.4	108,174.2	87,664.5	116,508.6	121,747.0	130,302.4	121,711.9	122,551.3	135,620.5

Source: ASEAN Secretariat, 2018.

The Chinese investment composed of direct investment, portfolio investment, and official investment in ASEAN increased rapidly since 2008. Before the year of 2013, Chinese investment was focused on commodity exporting economies for securing raw materials in the region that was the priority of Chinese investment strategy for domestic industrial activity. Since 2014, Chinese investment with high value added economies has become more important than accessing raw materials. Therefore, China started increasingly to focus on accessing high technology that made China to become an outbound investor and net capital investor since 2016. As a result, China invested the third largest amount of USD 11.4 billion in 2017 after the EU and Japan in the region. The rapidly increasing Chinese investment in the region is not entirely triggered by the BRI, but it reflexes the current stage of Chinese economic development cycle¹⁹ (See table 2).

According to the report of Industrial and Commercial Bank of China (ICBC) Standard and Oxford Economics, there are over 1,100 investment projects in 88 original and new partner countries announced and underway since 2013 that is worth more than USD 750 billion in the BRI projects although the total investment varies from scholars. Popular estimates for Chinese investment to the BRI range from USD 1 trillion to 8 trillion due to the undefined scope of the initiative and limited data availability of the projects. These investment projects include Nigeria, Russia, Saudi Arabia, Indonesia, Bangladesh, Cambodia, Laos PDR, and Ethiopia, where construction projects have been announced, underway or completed since 2013²⁰. These nations possess mainly two characteristics that are either geographically close to China either with significant natural resource reserves or with the finances available to contract Chinese engineering companies to build their domestic infrastructure. Among the top 10 investment hosting countries, there are four ASEAN member nations and two South Asia countries. It indicates the importance of ASEAN and South Asia for the BRI²¹ (See figure 1).

Despite the fact, it covers over 72 countries in the world listed in the 2015 Official Action Plan and includes infrastructure construction in the BRI countries with Chinese involvement in financing, construction, operating capacity, and direct investment through merger and acquisitions²². The World

¹⁹ The ASEAN Secretariat, *op. cit.* (2018): 2-5.

²⁰ ICBC Standard Bank and Oxford Economics, Belt and Road Interim Report: Tracking Evolving Scope, Discovering Expanding Opportunities (London: ICBC Standard Bank, 2018): 5-10.

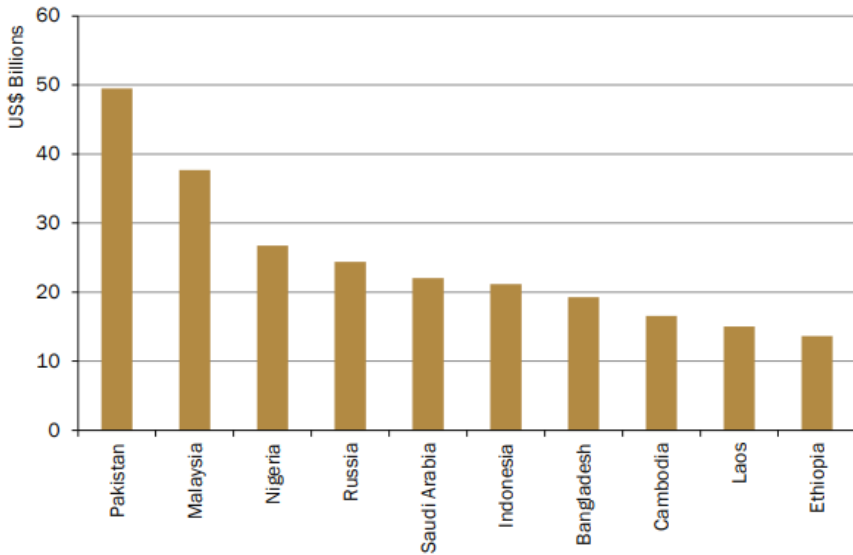
²¹ Hillman, J., How Big is China's Belt and Road? (2018) <https://www.csis.org/analysis/how-big-chinas-belt-and-road>.

²² Bandiera, L. and Tsiropoulos, V., A Framework to Access Debt Sustainability and Fiscal Risks under the Belt and Road Initiative, Unpublished Working Paper, World Bank (Washington D. C.: The World Bank, 2019): 1-10.

Bank estimates that the total investment of the BRI accounts for USD 575, including projects in all sectors in implementation phase and planned²³.

Figure 1

Top 10 BRI Investment Hosting Countries based on Announced, in Progress or Completed Projects since 2013



Source: ICBC Standard & Oxford Economics, 2018.

ICBC Standard Bank and Oxford Economics urged that the transport and logistics sector has been the largest recipient of funds for the BRI projects worth over USD 330 billion announced in progress or completed since 2013. The energy sector is the second largest at USD 266 billion. However, the World Bank reported that the largest investment in the BRI project is the energy and electric power worth over USD 264 billion, and the transportation and shipping is the second largest sector worth USD 144 billion in 70 corridors economies in 2019²⁴. The energy and transport sectors absorb 71 percent of the total BRI investment. Among the BRI investment, East Asia and the Pacific Region nations receive 34 percent of

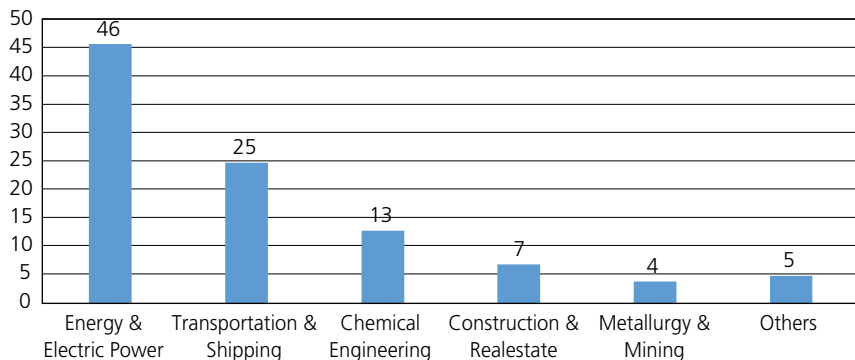
²³ The World Bank, *Belt and Road Economics: Opportunities and Risks of Transport Corridors* (Washington D. C.: The World Bank, 2019): 15-19.

²⁴ ICBC Standard Bank & Oxford Economics, *op. cit.* (2018): 11-18.

the total investment, and Europe Central Asia are the second largest regions to receive the investment with 32 percent. South Asia and Middle East and North Africa follow with 19 percent and 13 percent respectively. Finally, Sub-Saharan African share accounts only for two percent²⁵ (See fig. 2 & 3).

Figure 2

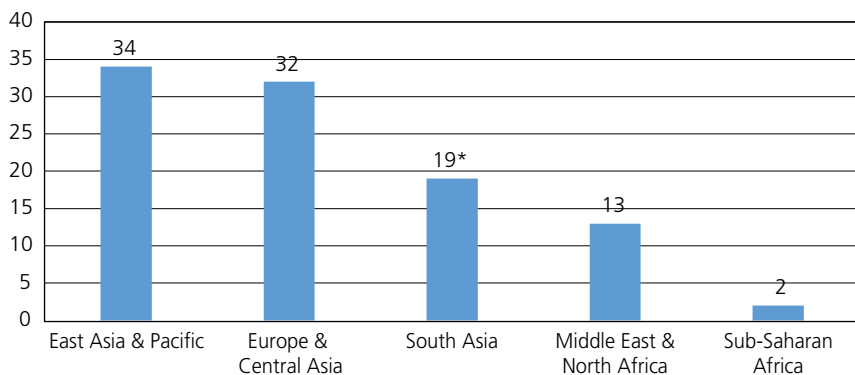
Industrial Sectors of BRI Investments in Percentage Shares of USD 575 Billion
(As of 2019, %)



Source: The World Bank, 2019.

Figure 3

Regions of BRI Investments in Shares of USD 575 Billion
(As of 2019, %)



Source: The World Bank, 2019.

²⁵ The World Bank, *op. cit.* (2019): 20-23.

Most of the BRI projects in ASEAN member nations started since 2013 and involved mainly transport infrastructures and energy sectors such as railways, roads and power plants. There are 19 BRI projects that were under construction between 2013 and 2018 in ASEAN member nations. These projects were carried by the Chinese investment in Brunei with one, Cambodia with five, Indonesia with five, Lao PDR with three, Malaysia with three, Singapore with one and Thailand with one. One BRI project in Myanmar was also planned, but not clear when it will be launched. Among these projects, the largest 10 projects started in 2013, two in Malaysia, two in Thailand, one in Brunei, Cambodia, Laos PDR, Indonesia, Myanmar, and Singapore (See table 3).

Table 3
The 10 largest BRI Projects in ASEAN

Rank	Year	Chinese Entity / Project	Cost US\$	Sector	Subsector (where applicable)	Country of investment
1	2017	Kuala Lumpur–Kota Bahru Rail (Construction)	14,300,000,000	Transport	Rail	Malaysia
2	2013	Preah Vihear–Kaoh Kong Railway	9,600,000,000	Transport	Rail	Cambodia
3	2017	Vanke, Hopu, Hillhouse, Bank of China	9,060,000,000	Logistics		Singapore
4	Unclear	Kyaukpyu Deep Sea Port (Construction)	7,300,000,000	Transport	Posts/ Shipping	Myanmar
5	2015	China General Nuclear	5,960,000,000	Energy		Malaysia
6	2016	Vientiane–Boten Railway Project	5,800,000,000	Transport	Rail	Laos
7	2017	Bangkok to Nakhon Ratchisima High-Speed Railway (Phase 1)	5,352,905,500	Transport	Rail	Thailand
8	2013	Zhejiang Hengyi	3,440,000,000	Energy	Oil	Brunei
9	2017	China Railway Engineering	3,190,000,000	Transport	Rail	Indonesia
10	2017	China Railway Construction, China Railway Engineering	2,690,000,000	Transport	Rail	Thailand

Source: ICBC Standard Bank& Oxford Economics, 2018.

However, a few BRI related projects are under review, either to be cancelled or re-negotiated. These are the Jakarta Monorail Project in Indonesia and the ECRL Project in Malaysia. The latter has been subject to pending further negotiations between China and the new Malaysian government

since 2018. Moreover, the Jakarta-Bandung Railway Project is also under threat because the China Development Bank delayed to release the loan²⁶.

ASEAN's strategies to cooperate with the BRI are to realize the following goals:

Firstly, ASEAN member nations understand that Chinese investment in the BRI projects could provide opportunities to overcome the problem of inadequate infrastructure in the region that is a major obstacle for the further ASEAN's economic growth in a short term and a long term. Additionally, the BRI projects linked to internationally sourced financing including from China could draw investments into productive sectors such as manufacturing, energy, and services in ASEAN member nations.

Secondly, ASEAN member nations hosting the BRI projects are keen to reduce the trade imbalance with China. Until 2018, trade in goods and services between the two parties was in China's favor. However, ASEAN member nations hope that they could increase their exports to China due to the better market access after completing the BRI projects.

Last, but not least, ASEAN hosting countries to the BRI expect increasing exports into China and Europe connecting the continental ASEAN member nations to Central Asia, Russia, and Eastern Europe that could contribute to generating a further economic growth in the region²⁷.

III.II. *Chinese roles and strategies of the BRI*

In March 2015, the Chinese government issues an action plan describing main objectives of the BRI. In the plan, the BRI participating nations represent more than one third of global GDP, nearly two third of world's population, and USD 3 trillion trade between China and BRI countries between 2014 and 2016²⁸. While infrastructure investment is known as a key aspect of the BRI, China strongly intends that the BRI is much broader in its objectives, encompassing sustainable growth including more balanced regional growth, the upgrading of its industry and economic growth at home and in the participating economies²⁹ (See fig. 4).

²⁶ Jusoh, S. (2018) The Impact of BRI on Trade and Investment in ASEAN, in CIMB ASEAN Research Institute (ed.) *China's Belt and Road Initiative (BRI) and Southeast Asia* (Kuala Lumpur: CIMB CARI, 2018): 10-18, Negara, S. D. and Suryadinata, L., *Jakarta-Bandung High Speed Rail Project: Little Progress, Many Challenges, ISEAS Perspective*, Issue 2018, 2 (2018), Singapore, 4 Jan.

²⁷ Jusoh, *op. cit.* (2018): 11-12.

²⁸ OECD, *op. cit.* (2018).

²⁹ Hong Kong Shanghai Banking Cooperation (HSBC), *Belt, Road and Beyond: Understanding the BRI Opportunity* (London: HSBC, 2019).

Figure 4

A Glance of the BRI (As of 2017)



Source: China Power Project, 2017.

The BRI is a colossal project that aims to improve regional cooperation through better connectivity among countries located in the ancient Silk Road and beyond. It includes the Silk Road Economic Belt for the land and the 21st Century Maritime Silk Road for the sea. At the start, 64 nations participated in the BRI, and the total numbers of participating economies have increased over 100 in different forms. Through the BRI, China needs to ensure not only a shift of excess capacity and less environmentally friendly energy resources to other countries, but also contribute to strengthening sustainable development goals in 2030.

The BRI targets specific objectives focusing mainly on an economic growth through the connectivity between China and participating economies in the project³⁰. The connectivity is based on facilitating trade and investment, and thereby economic and social development of neighboring countries. Additionally, it supports strategically security of energy, resources and foods, while China takes a regional leadership with its most important neighbors. Accordingly, the BRI has a broad scope including cultural, economic, and strategic connectivity³¹. The strategic objectives of the BRI are set clearly in Chapter 51 and other parts of the 13th Five-Year Plan. These are as follows: to increase trade and investment in the BRI, to build free trade zones along the Silk Road, to enhance financial cooperation in the region to fund infrastructure, to gain access to natural resources, to strengthen transport infrastructure in the BRI corridors, and to deepen cultural exchanges in the region³².

³⁰ People's Republic of China, 13th Five-Year Plan on National Economic and Social Development (2016) .<http://en.ndrc.gov.cn/newsrelease/201612/P020161207645765233498.pdf>, accessed on 22 Jan. 2021.

³¹ Cai, P., *Understanding China's Belt and Road Initiative* (Sydney: Lowy Institute, 2017).

³² OECD, *op. cit.* (2018).

In order to meet the six strategic objectives, the BRI designed the six economic corridors based on China’s development model that are China-Mongolia-Russia, New Eurasia Land Bridge, China-Central Asia-West Asia, China-Pakistan, Bangladesh-China-India-Myanmar, and China-Indochina Peninsula Economic Corridors³³. Among these, the Bangladesh-China-India-Myanmar Economic Corridor seems to develop more slowly than expected due to mistrust over security issues between China and India. In the BRI, infrastructure investment along the Belt and Road is concerned with the six economic corridors covering a large energy and resource rich areas in the world. Furthermore, the BRI is keen to link up road and rail connections with global ports that is very essential to function the maritime Silk Road properly. By doing that, the BRI connects China to Central Asia, East Asia, Southeast Asia, South Asia, West Asia, Europe, and African continent³⁴ (See fig. 5).

Figure 5
Map of One Belt and One Road



Source: OECD Research from Multiple Sources, 2018.

³³ OECD, *op. cit.* (2018).

³⁴ Patil, S., *OBOR and India’s Security Concerns* (2015): <https://www.gatewayhouse.in/security-implications-of-chinas-transnational-corridors/>, accessed on 22 Jan. 2021.

Primary functions of the BRI economic corridors and the maritime Silk Road are based on how China achieves its strategic objectives whether that be through improving access to export markets, raw materials or manufactured goods. In order to improve access to export markets, the China-Pakistan Economic Corridor, the New Eurasian Land Bridge, and the New Maritime Silk Road can facilitate smooth trade links between China and some of the world's largest markets with shorter lead-time and fewer frictions. Secondly, the China-Mongolia-Russia Economic Corridor, the China-Central Asia-West Asia Economic Corridor play roles in accessing to raw materials due to their geographical proximity and a large quantity of raw materials in the regions. Last, but not least, the China-India-Bangladesh-Myanmar Economic Corridor and the Indochina Peninsula Economic Corridor are focused on improving access to supply chains for Chinese manufacturing sectors. China needs low wage economies for outsourcing additional manufacturing processes with improved transport links because wages increase continuously in China³⁵.

In order to connect these strategic economic corridors, China has invested millions of dollars to carry global construction projects mainly for building infrastructure from 2005 and 2018. During the period, the cumulative total amount accounts for USD 480.3 billion in the BRI participating economies. It is around 59 percent of the global total of USD 814.3 billion. Along with the BRI participating economies, Sub-Saharan Africa is the second largest infrastructure investment area with USD 170.7 billion, and the Latin America, the Middle East and North Africa (MENA) as well as the EU, excluding EU economies participating in the BRI follow³⁶ (See fig. 6).

Such a massive investment policy for building infrastructure outside China could reduce air pollution and increase the quality of environment because China's new environmental regulations provide cement and metal industries market incentives to move to the west of China and along the Silk Road³⁷. Additionally, the policy aims to move old iron and steel capacity out along the Belt and Road in order to strengthen the metal industry focusing on cleaner, high-tech, steel products and metal trading. It was explicitly highlighted by the Premier Minister Li Keqing in the 17th ASEAN Conference. In line with the investment policy, Hebei Province moved the capacity for 5.2 million tons of steel, 5 million tons of cement, and 3 million units of glass abroad in 2017. These will increase to 20 million, 30 million, and 10 million respectively by 2030. By improving

³⁵ ICBC Standard Bank and Oxford Economics, *op. cit.* (2018).

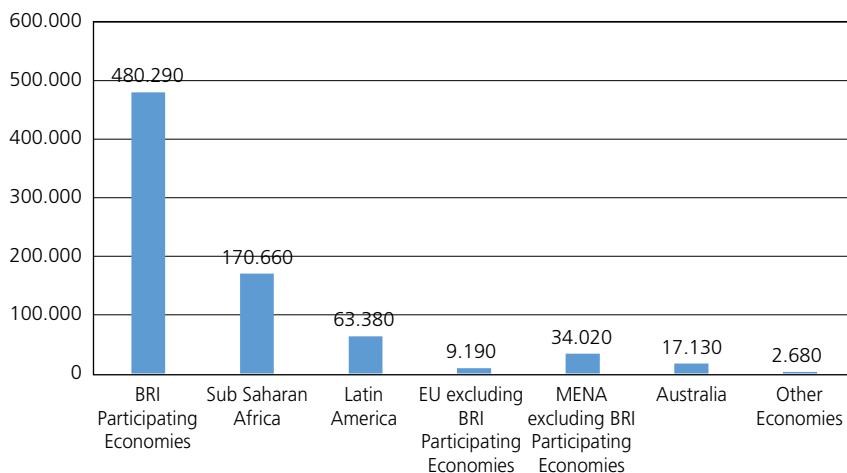
³⁶ OECD, *op. cit.* (2018).

³⁷ Klay, D. van der, China Shifts Polluting Cement to Tajikistan, China Dialogue, 8 Aug. (2016).

connectivity via the infrastructure investment policy, the BRI has a strong potential to create a solid platform for trade and investment, in which China plays a role as its center³⁸.

Figure 6

Chinese Cumulative Outward Investment in the Construction Sector between 2005 and 2018 (As of USD Million)



Source: American Enterprise Institute, 2018 and China Global Investment Tracker Database, 2018, Note: 2018 data are until the end of June.

III.III. Financing and risks of the BRI in participating countries

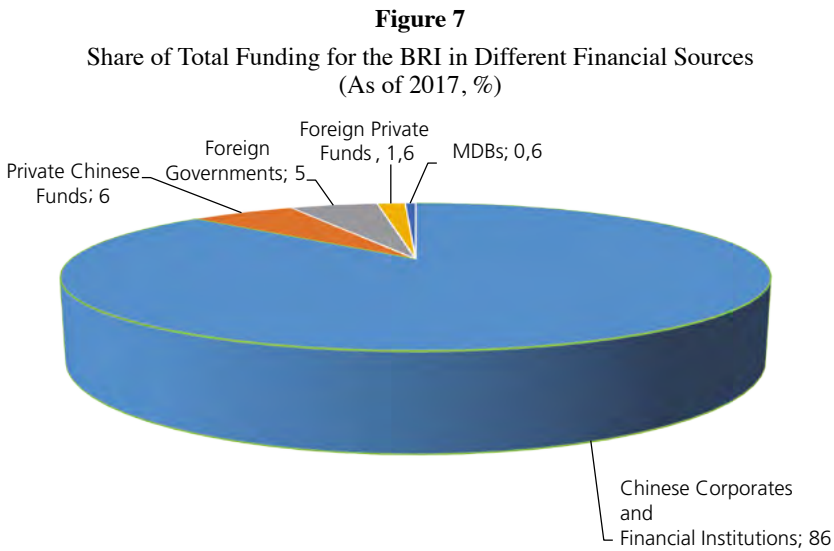
Chinese investments in the BRI projects since the initiative launch in 2013 were stated officially that it had totaled to USD 60 billion in 2017. Over the ensuing five years, China's total outbound investment could account for between USD 120 billion and USD 130 billion per year that will reach up to USD 800 billion in total³⁹. According to the Chinese State Council, the total funding for the BRI ranges from USD 4 trillion to USD 8 trillion if the BRI is fully implemented. It will be difficult for China's policy and commercial banks to provide the total investment financing on their own so that China needs to seek partnerships wherever possible in

³⁸ OECD, *op. cit.* (2018).

³⁹ HSBC, *op. cit.* (2019).

order to attract additional financing sources from third party public and foreign private funds⁴⁰.

The share of all infrastructure investment financed by the private sources in emerging markets is estimated between 20 and 25 percent in recent years. The rest share is financed by governments and development banks. However, the share of the infrastructure investment in the BRI financed by private sources accounts less for 10 percent. The BRI is mainly financed by large Chinese financial institutions supported by the Chinese government. These are two policy banks and four state owned commercial banks. The former are the Export-Import Bank of China and China Development Bank. The latter are ICBC, China Construction Bank, Agricultural Bank of China, and Bank of China. Additionally, foreign governments and multilateral development banks (MDBs) finance the BRI less than 10 percent of the total. It is a high challenge for China to generate interests of investment in the BRI from non-Chinese and private sources⁴¹ (See fig. 7).



Source: Oxford Economics, 2018.

Among the foreign governments participating in the BRI, Saudi Arabia invests mostly with over USD 12 billion and Hong Kong and Macau

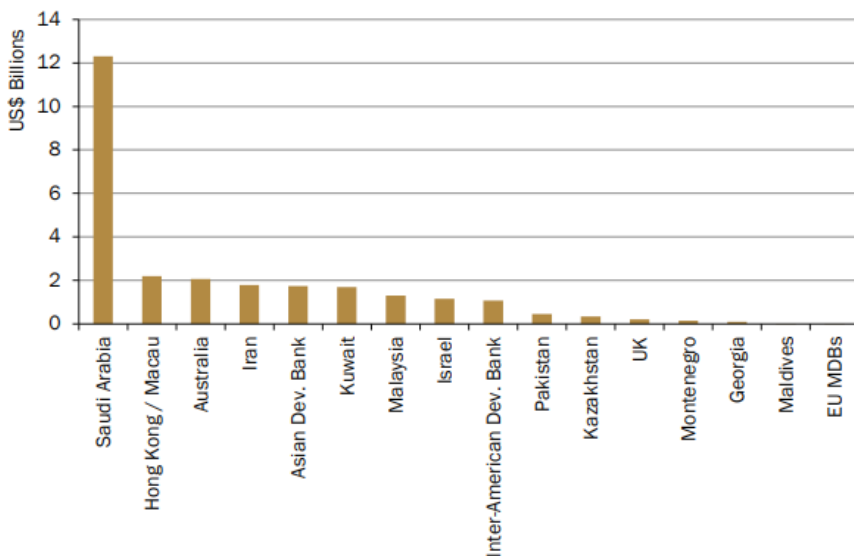
⁴⁰ ICBC Standard Bank & Oxford Economics, *op. cit.* (2018).

⁴¹ ICBC Standard Bank & Oxford Economics, *op. cit.* (2018).

follow. Among the MDBs, the ADB is the largest investor with USD 1.8 billion. After the ADB, the Inter-American Development Bank (IADB) invests around USD 1 billion and EU MDBs' investments are rather very marginal. Among the ASEAN countries, Malaysia is only one nation to invest with over USD 1 billion. These nations and MDBs invest mostly in building the infrastructures such as roads, rails, and power stations. They are able to provide either mature financial markets or sovereign wealth funds that can finance infrastructure projects within their borders. At the same time, these nations can also attract inward BRI investment and even explore the BRI opportunities in the third party economies⁴² (See fig. 8).

Figure 8

Foreign governments and MDBs Investing in BRI Projects from 2013 to 2017



Source: Oxford Economics, 2018.

Among the six largest Chinese financial institutions, the Industrial and Commercial Bank of China (ICBC) invested the largest amount with USD 159 billion. China Development Bank, Bank of China, and China Exim Bank follow with USD 110 billion, 100 billion and USD 80 billion respectively. Besides the six largest financial institution, the Chinese go-

⁴² ICBC Standard Bank & Oxford Economics, *op. cit.* (2018).

vernment established Silk Road Fund, New Development Bank (NDB), and Asia Infrastructure Investment Bank (AIIB) in order to finance the BRI projects. Moreover, China Export and Credit Insurance Corporation (SINOSURE) signed a cooperation agreement on the BRI with the ICBC in 2015 in order to focus on supporting projects in regions along the BRI area. It guaranteed USD 570.56 billion for China's export, investment and contracting projects in the countries along the BRI area. All Chinese financial institutions do have different features how to finance the BRI projects⁴³ (See table 4).

It is no doubt that the BRI projects could have high potential to accelerate the economic integration and development in the participating countries. However, at the same time, the large cost of the BRI projects raises concerns about the debt sustainability in some countries of the BRI area due to the poor information about the investment and financing terms of the BRI projects, and the lack of a comprehensive fiscal framework⁴⁴. Under the BRI, investment projects are mainly structured as public investments or as public-private partnerships (PPPs) with one Chinese state-owned enterprise (SOE). Financing measures use to be foreign currency denominated debt to a government, SOE, or private entity. Interest costs of Chinese loans are on average more favorable than borrowing on market terms that are mostly concessional with fixed interest rates of two percent in median, a grace period of six years, and a maturity of 20 years. However, these are not most favorable for low-income developing countries (LIDCs) such as Laos PDR, Cambodia etc. A growing share of loans to emerging market economies (EMEs) with flexible interest rates benchmarked to six month LIBOR rate, a grace period between 3 and 5 years, and a maturity period between 12 and 18 years. Interest rates from Chinese lenders to LIDCs are on average more favorable than to EMEs, but remain higher than those available from other creditors at low and moderate risk of debt distress. Moreover, Chinese loans use to be associated with other economic costs arising from collateralization that could burden LIDCs and EMEs and increase risks of their economies⁴⁵.

⁴³ OECD, *op. cit.* (2018).

⁴⁴ The World Bank, *op. cit.* (2019).

⁴⁵ Bandiera, L. and Tsiropoulos, V., *op. cit.* (2019).

Table 4
Chinese Major Financial Institutions for the BRI Projects

Institution	Features	Estimated Exposure (USD Billion)	Project Examples
China Development Bank	Non-concessional loans& credit lines Concessional loans Overseas investment support	110	Supporting 400 plus projects in 37 nations along the BRI
China Exim Bank	Preferential export credits tied to export Export buyer's & seller's credits	80	Supporting 1,000 plus projects in 49 nations along the BRI
Agricultural Development Bank of China	Overseas investment support tied to exports		Supporting Silk Road Fund and for Chinese companies
Industrial and Commercial Bank of China	Non-concessionary loans	159	212 BRI related projects
Bank of China	Non-concessionary loans	100	Various BRI related project loans
Silk Road Fund	All BRI related projects	40	Infrastructure projects in energy sector
China Construction Bank	Contributing to BRI related projects	10	MofCom states
New Development Bank (NDB)	BRI related projects	1.261	Loans in infrastructure sector
China Export and Credit Insurance Corporation		570.56	Guarantee for China's export, investment and contracting projects in BRI area
Asia Infrastructure Investment Bank (AIIB)	Not BRI related projects (China 36% voting)	2.33	Nine infrastructure projects along the BRI area

Source: Chinese Academy *et al.*, 2017; US-China ESRC, 2017.

IV. Analysis on the BRI and possible impacts of the COVID-19 pandemic on the BRI

IV.1. *The BRI in ASEAN and China*

It is no doubt that trade and Foreign Direct Investments (FDI) contribute to close interactions between nations that generate an economic growth in a region. It has also applied to the economic interactions between ASEAN and China, and it has strengthened with the BRI. Since the BRI officially started in 2013, the China's trade volume with ASEAN had increased rapidly until 2017 compared with other major trading partners to ASEAN. China had become the largest trade partner to ASEAN since 2010. The trade volume between ASEAN and China was nearly twice larger than the trade volume between ASEAN and the EU in 2017, although the EU's FDI in ASEAN was more than double of the Chinese FDI in ASEAN in the same year. It indicates that ASEAN economy has been more integrated with the Chinese economy, and the trade dependency of ASEAN on China has become higher than any other economies in the world (See table 1, 2).

While the economic integration between ASEAN and China had been deepened, the trade deficit of ASEAN to China had also increased rapidly particularly from the BRI starting year to 2017⁴⁶. It means that the BRI generated more economic benefits to China than to ASEAN in terms of trade balance. At the same time, Chinese trade had linked to the BRI participating economies more closely than Organization for Economic Co-operation and Development (OECD) or other economies⁴⁷ (See table 5 and fig. 9).

In addition to the trade, the BRI infrastructure projects will promise significant benefits for connectivity between ASEAN and China that could boost the bilateral trade between ASEAN and China. With a need for infrastructure investment in the ASEAN member nations of up to USD 210 billion per year to 2030, the potential investment from China via the BRI could contribute to a significant increase of the global competitiveness in the region as a whole and some competitive emerging market economies such as Malaysia, Thailand, and Vietnam in particular⁴⁸.

⁴⁶ ASEAN Secretariat, *op. cit.* (2018).

⁴⁷ OECD, *op. cit.* (2018).

⁴⁸ ADB, *op. cit.* (2017), HSBC, *op. cit.* (2019).

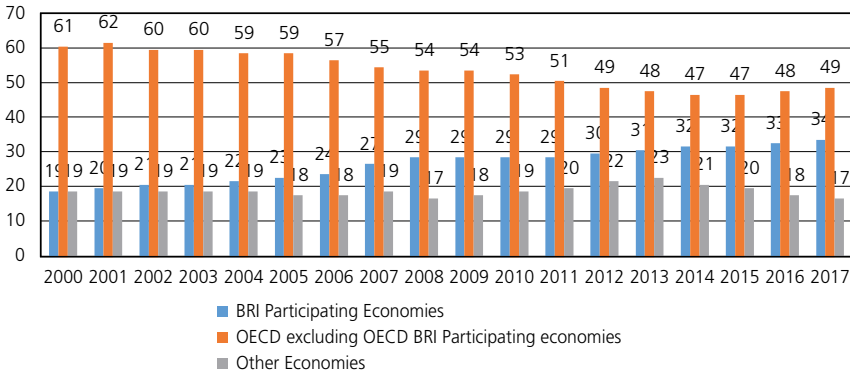
Table 5
ASEAN Balance of Trade in Goods by Trading Partners between 2008 and 2017 (USD Million)

TRADING PARTNER	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
TRADE BALANCE (x M)										
ASEAN	30,809	23,483	25,933	49,098	50,407	59,475	52,305	38,832	36,981	31,277
TRADING PARTNER	26,691	60,282	70,298	36,143	-15,695	-36,457	819	31,773	29,795	36,807
Australia	16,373	14,120	18,522	17,930	21,649	21,502	17,007	14,089	13,288	9,974
Canada	346	1,956	1,001	481	439	498	1,103	1,710	2,158	1,852
China	-21,728	-15,027	-9,271	-13,278	32,260	-42,101	-55,332	72,914	-80,343	-68,059
EU-28	14,622	14,033	25,657	20,850	5,475	417	14,600	24,119	27,283	54,616
India	13,475	14,015	17,486	17,809	16,040	16,469	19,537	20,941	16,940	17,032
Japan	-3,069	-4,865	-12,898	-165	-8,538	4,537	11,141	1,082	-9,303	-7,674
Korea, Republic of	-5,294	-6,214	-11,722	-16,169	-20,336	-28,904	-27,920	-29,725	-32,620	-43,617
New Zealand	1,216	898	1,135	910	1,956	1,577	2,044	1,698	1,194	1,398
Russian Federation	-4,316	-3,437	-5,862	-7,466	-8,405	-9,528	-11,786	-5,431	-2,392	-5,069
USA	20,081	15,357	16,748	10,125	14,459	20,434	29,136	40,303	50,341	51,188
Rest of the World	-5,014	29,446	29,501	5,117	-6,174	-21,358	1,291	35,900	43,249	27,187
TOTAL	57,900	83,775	96,230	85,241	34,712	23,018	53,124	70,605	66,776	70,084

Source: ASEAN Secretariat, 2018.

Figure 9

Chinese Exports to BRI Participating Economies Compared with OECD and Others between 1993 and 2017 (%)



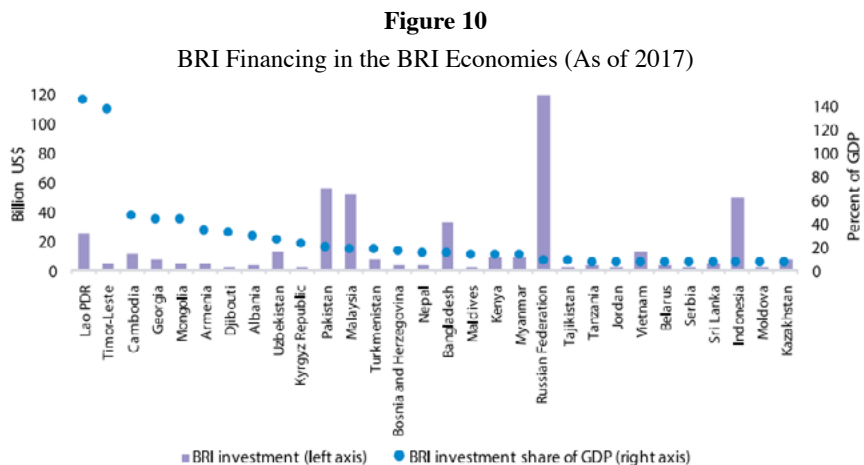
Source: Adopted by OECD based on IMF Direction of Trade Database, 2018; OECD Calculations, 2018.

The BRI investments are overwhelmed accumulated mainly in seven countries that are Russian Federation, Pakistan, Malaysia, Indonesia, Bangladesh, Lao PDR, and Cambodia. Among these, four nations are ASEAN countries. In 2017, the median BRI investment amounted to under six percent of GDP in the BRI participating economies. In fact, it is not large compared to investment needs of many developing countries. However, the BRI investments in some ASEAN countries such as Lao PDR, Cambodia, and Malaysia are accrued to over 20 percent of their GDP. Particularly, its ratio in Lao PDR and Cambodia increased over 140 percent and 50 percent respectively. As a result, Lao PDR and Cambodia face a high risk of debt distress, while Malaysia and the rest of ASEAN member nations have medium risk and low risk of debt distress respectively. Countries with vulnerable debt situations such as high and medium risks of debt distress use to have very limited fiscal space to receive new loans and need to receive the BRI debt financing⁴⁹ (See fig. 10).

Additionally, the BRI projects in ASEAN face local residents’ protests in Indonesia, corruption allegations in Malaysia, financing and labor conflicts in Thailand, questions for national interests in Laos PDR, environmental protection problems in Indonesia, Malaysia, and Thailand etc. These are based on social, economic, labor, environment areas com-

⁴⁹ The World Bank, *op. cit.* (2019)

prehensively in ASEAN member nations that hinders the BRI projects to be completed fully⁵⁰ (Evers & Menkhoff, 2018).



Source: Adopted by The World Bank based on WIND Database and World Development Indicators, 2019.

IV.II. Possible impacts of the COVID-19 pandemic on the BRI

Since January 2020, the world has experienced the COVID-19 Pandemic and no one can expect exactly when it will be over completely. The pandemic caused the lockdown in many nations including China, around the world that has affected their national economies and the global economy severely. Particularly, it has affected manufacturing, services, supply chains, and movement of people and goods. China has mobilized its resources to manage the containment of the virus and seems to control the pandemic in June 2020, although the small numbers of new patient have been detected within the nation continuously. At the same time, however, it needs to balance challenges to Chinese liquidity and the general economic downturn. Under such a circumstance, the BRI activity will also be affected both in the near and long term future⁵¹.

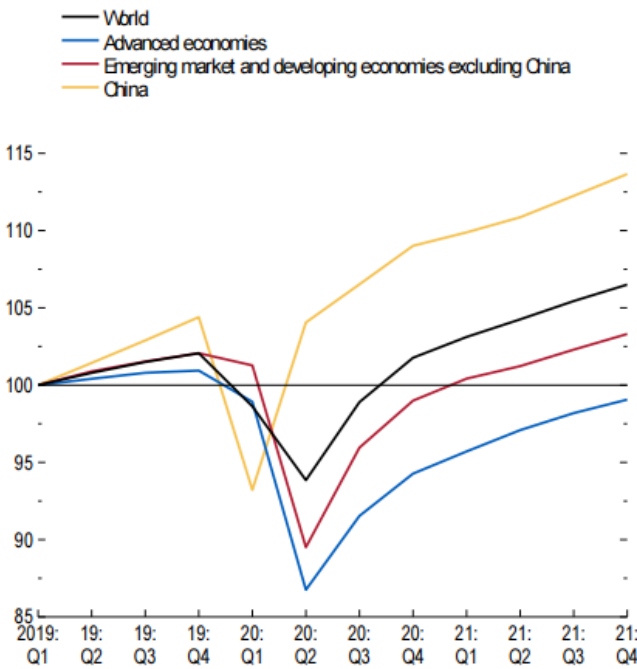
⁵⁰ Evers, H-D and Menkhoff, T., China’s Belt and Road Initiative and ASEAN’s Maritime Clusters, Southeast Asian Social Science Review, 3:2 (2018): 8-29.

⁵¹ Boo, B-C, David, M., Ruan, Z. and Simpfordorfer, B., Understanding How COVID-19 Alters BRI (2020): <https://www.bakermckenzie.com/-/media/files/insight/publications/2020/03/covid19-bri-short-report.pdf?la=en>, accessed on 18July 2021.

Given the long term economic forecast, the global economic growth is projected by International Monetary Fund (IMF), the World Bank, OECD at -4.9, -6.0, and -5.2 percent in 2020 respectively. It expects a deep downturn in 2020 and a sluggish turnaround in 2021. In the baseline, the global economy is expected to slow down until the second quarter of 2020 and starts to recover thereafter. Among the major economies, China is expected to recover faster than any other economies, while the advanced economies could grow until the end of 2021 to the lower level than that of 2019. Although the global economy recovers fast in the second half of 2020, it will generate about three percent growth in 2021, but it will slow down again up to one percent till 2024⁵² (See fig. 11, 12).

Figure 11

World GDP in Quarters (As of 2019~2021, 2019 Q1 = 100)

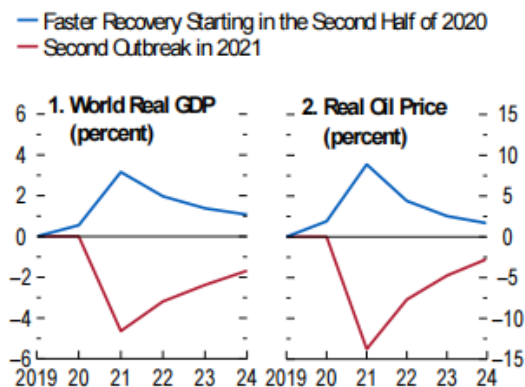


Source: IMF, 2020.

⁵² International Monetary Fund (IMF), World Economic Outlook Update, June (Washington D. C.: IMF, 2020), The World Bank, Global Economic Prospects, June, Washington D. C.: The World Bank, 2020), OECD, Economic Outlook, June (2020): <http://www.oecd.org/economic-outlook/june-2020/>, accessed on 19 July 2021.

Figure 12

Alternative Scenarios of Global Economic Growth and Oil Price
(As of 2019~2024)



Source: IMF, 2020.

However, the global economy will enter to another deep downturn if the second outbreak in 2021 takes place. It will decline to -5 percent in 2021, and the oil price will fall up to 15 percent from the price of 2020. In the scenario of the faster recovery, Chinese economy is expected to be the most resilient compare to other major economies and other emerging economies. Therefore, the ASEAN economy could be more dependent on the Chinese economic recovery than other advanced economies. However, in the scenario of the second outbreak, the global economy could generally suffer from the negative growth until 2024 that could affect the BRI in ASEAN severely and negatively in the long term⁵³.

The COVID-19 pandemic could change the global supply chains (GSCs) fundamentally. In fact, since 2018, Chinese companies have focused their efforts on the ASEAN markets where supply chain linkages with China are strong and high profits could be generated. Therefore, the COVID-19 pandemic will not hinder the ongoing momentum of Chinese private manufacturers from investing in the ASEAN markets. They will seek to build capacity across the ASEAN markets and hedge against rising risks of supply chain disruptions. It will generate benefits to China's infrastructure investments in ASEAN. Furthermore, Chinese state companies are keen to invest in ports, power, and industrial parks across ASEAN member nations where these projects are aligned with Chinese investment

⁵³ IMF, *op. cit.* (2020).

into manufacturing. As a result, it also supports the development of Chinese commercial ecosystem in the region⁵⁴.

V. Conclusion

Chinese economy has developed rapidly since its open policy in 1978. It generated a high economic growth with ten percent in average from 1981 to 2010. As a result, China became the second largest economy in 2010, and it is continuously challenging to become the largest economy in the world. Many scholars have discussed whether it is possible for China to take over the economic super power form the USA or not that is still ongoing process and discussion. The answer is rather diverse and depends on what perspectives do scholars have around the world.

Despite the fact, the Chinese government and leadership confirmed its long-term development strategy known as the Belt and Road Initiative (BRI) representing so-called Chinese Dream becoming the global super power in all areas by 2050. The BRI aims to meet the multiple targets such as access to exceed production in cement, glass, and steel, creating further export markets, access to sustainable energy resources, upgrading technological level in domestic industries, solving domestic environmental problems etc. In order to meet these targets, China launched over 1,100 BRI projects in around 100 nations participating in the BRI directly and indirectly and formed the major six economic corridors focusing on their own strategic areas.

Among the six economic corridors, seven of ten ASEAN member nations participate in the China-Indochina Peninsula Economic Corridor and others participate in the Maritime Silk Road. In the China-Indochina Peninsula Economic Corridor, China aims to establish a regional supply chain that provides Chinese economy high tech products from Singapore and Malaysia, as well as outsourcing low-income countries such as Cambodia, Indonesia, Thailand, the Philippines, and Vietnams in order to solve rapidly increasing wages in the Chinese market. In order to establish a well-functioning supply chain in the region, China has invested in the economic corridor heavily along with China-Mongolia-Russia Economic Corridor.

The BRI projects building infrastructure in ASEAN have contributed to increasing connectivity between ASEAN and China that has boosted trade volumes and FDI in the region. However, China and Korea have gained more trade surplus to ASEAN than other ASEAN's major trading partners, while the BRI projects have been launched. It means that the regional supply chain has been established successfully that is more favor to China

⁵⁴ Boo *et al.*, *op. cit.* (2020).

than to ASEAN. Despite the increasing connectivity created by the BRI, several ASEAN member nations such as Cambodia, Lao PDR, and Malaysia face a high debt risk due to the heavy investment of the BRI that burdens a sustainable national economic growth.

Therefore, these nations need to get a debt financing in order to continue the BRI projects. It indicates that the BRI projects do not impact the participating economies positively automatically, but it is fully dependent on the national development strategies in the participating economies and what kinds of national competitiveness they do have. Among the ASEAN member nations, the Thailand and Vietnamese strategies can be good examples to attract all foreign investments and play roles in manufacturing production hubs, while they keep the BRI projects with low levels in their public debt ratios. The unexpected COVID-19 pandemic will affect the BRI negatively in the short term in the region because it results in a deep downturn in the global economy. However, the ASEAN member nations participating in the BRI could be more dependent on Chinese investments in their infrastructure and manufacturing development projects than other advanced economies because Chinese economic growth amid the COVID-19 pandemic is projected to be the most resilient among the major economies. However, only qualified ASEAN member nations could maximize to gain their national interests.

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