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STUDENT REPORT

Unsteady complexity of the EU-China relations

A Case Study of the Comprehensive Agreement on Investment

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Abstract

Since the start of the economic reforms in the People's Republic of China four decades ago, relations with the European Union have evolved from nothing to a complex structure of interest and conflicts, that requires a multi-faced approach from the European side. Both challenges and opportunities that have emerged from the rise of China led the EU to name it as a strategic rival, economic competitor, and cooperation partner back in 2019. From the beginning of the new strategy, it was clear that such a trichotomic policy will not be easy to conduct coherently. To complicate the relations, even more, the growing rivalry between the United States of America and China has urged the European Union to aim for Strategic Autonomy, which would enable it to decide upon its vital issues alone, without unwanted geopolitical choices. Comprehensive Agreement on Investment concluded at the end of 2020 is the first serious decision of the EU in these new circumstances and controversies over the deal reflect skepticism towards the new strategy of the EU on China. Although the agreement's primary focus is materialistic and can be well explained by liberalism and realism, the two leading theories of International Relations have some shortcomings when it comes to political circumstances of the conclusion of the deal and provisions on non-material aspects. To fill that gap, the theory of Social Constructivism can be applied. Its inclusion of values and identity, without neglecting economic aspects, can help to understand why does the Comprehensive Agreement on Investment fits into the European Union trichotomous strategy towards China, when both parties are facing the complexities of their bilateral relations. Although the agreement is probably far from being perfect it can be easily argued that nothing more could be achieved, especially considering the issue of timing. However, negotiated provisions are promising and the deal can be defended as a move in the right direction and worth giving a try. It also addresses the idea of Strategic Autonomy the European Union should aim for. However, the political fate of the agreement is uncertain, since the ratification of the deal will face serious obstacles and whether it will come into force could redefine the future of the EU's policy towards China. Next years and the future of the agreement will decide whether they will lead to further engagement, disappointment, or decoupling.

Preface

This project has been conducted within Department of Politics and Society of The Faculty of Social Science of Aalborg University, by a student of Development and International Relations Master's degree program, with a specialization in the Chinese Area Studies.

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List of abbreviations

AIIB	Asian Infrastructure Investment Bank
BRI	Belt and Road Initiative
CAI	Comprehensive Agreement on Investment
CCP	Chinese Communist Party
DGEPU	Directorate General for External Policies of the Union
EEAS	European External Action Service
ASEAN	Association of Southeast Asian Nations
CEMAC	Clean Energy Manufacturing Analysis Center
CEC	Commission of the European Communities
EUCCC	European Union Chamber of Commerce in China
IEEFA	Institute for Energy Economics and Financial Analysis
EEC	European Union Chamber of Commerce in China
EP	European Parliament
EU	European Union
EUR	euro
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
ILO	International Labour Organization
IPE	International Political Economy
IR	International Relations
MEP	Member of the European Parliament
M&A	Mergers and Acquisitions
OECD	Organization for Economic Co-operation and Development
PRC	People's Republic of China
RCEP	Regional Comprehensive Economic Partnership
RNB	renminbi
SOE	State-owned Enterprise
UCS	Union of Concerned Scientists
UNFCCC	United Nations Framework Convention on Climate Change
USA	United States of America
USD	United States dollar
USSR	Union of Soviet Socialist Republics

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1. Introduction

1.1 History of the EU-China relations

In Chinese history, 1949 marks the end of a so-called century of humiliation. As the People's Republic of China (PRC) was established, a time of hundreds of years of repeating devastating events that took China from the position of the world's most powerful country to one of the poorest and fusty, was supposed to come to an end, reverse the trend and bring the country back to the right place. During that time, China had been shaken by internal turmoil such as the Taiping and Boxer rebellions shook the country and led to its foreign exploitation, including European countries. At this point of time, when China was considered a third-world country, nobody could expect that in 70 years it would have a global superpower's ambitions.

However, the first three decades of PRC were not as successful as chairman Mao Zedong expected. Only in the late 70s, a new process had begun, which in 2014 made China the world's largest economy in terms of purchasing power parity. As the United States of America felt that it was losing the Cold War, a major shift in the world's geopolitics occurred, when Beijing turned back on the USSR and aligned itself with the West. This act opened its economy to foreign investment and ushered radical economic reforms under the lead of visionary Deng Xiaoping (Góralczyk, 2018).

Opening the world's most populous country stunned the globe, as China began its rapid economic growth. The end of isolation under US supervision led more European countries to establish diplomatic relations with China and by 1979 all member states of the European Economic Community (EEC) officially recognized PRC¹. On the economic level, relations between the EEC and China have already been settled in 1975, when the first European Commissioner visited Beijing with an official visit. In the following years, the relations flourished. Both sides signed the first trade and economic agreements, which later had been extended and other areas witnessed further cooperation in fields such as agriculture and technology, accompanied by the opening of mutual delegations (EEAS, 2011).

¹ Some countries of the future EEC recognized the PRC in early 50s (for example, Denmark or the United Kingdom), but the rest followed in the late 70s.

Further opening of the economy and enhanced cooperation at a high level, created a sense of belief among the Western countries that this trend would continue and ultimately more liberal reforms would follow in China, as it gradually shift from communism to democracy. Those beliefs were first dwarfed on the 4th of June 1989. On this day first free parliamentary elections in post-war Poland took place, marking one of the symbols of the end of the Cold War and the collapse of the Iron Curtin in Europe. The West was in the process of victory over communism that later made Prof. Francis Fukuyama to declare the end of history. He argued that liberal democracy and the free-market system under the US world order were supposed to be the ultimate solution for humanity because materialism will be always a stronger driving force in politics, than any ideology (Fukuyama, 1992). Earlier in his article from 1989, he predicted that the Marxism-Leninism style of governance in China would be not possible to sustain in the long term as economic reforms will advance (Fukuyama, 1989). On the very same day, China showed that it saw it the other way around. While Poles were casting their votes, the Chinese Communist Party smashed the pro-democratic movement with the People's Liberation Army on the streets of Beijing.

Perestroika, which led the United Socialist Soviet Republic to collapse in 1991, was a victory of the liberal world, but for Beijing, it was a warning sign. The party's officials concluded that the Soviets lost their grip on the country because they neglected economic issues and opened the society too fast. In turn, Kremlin's choices made people of the USSR too liberal and demanding of better economic conditions like in the West. Thus, the CCP decided to never cede political power, quashed any liberal attempts and speed up economic reforms. This choice created an informal social contract with the Chinese nation: the people would not question the CCP's regime unless their standard of living was constantly being increased. One of the first actions of that tighter grip over society was the Tiananmen Square Massacre (Bogusz & Jakóbowski, 2020, p. 15).

As an aftermath, the Chinese regime suffered diplomatic isolation. The EEC canceled high-level contacts and planned loans. Western economies imposed economic sanctions on China. Leaders of Europe condemned the communist regime and some vowed to freeze relations with Beijing. It was a shock, but in the end, did not have a serious long-term effect on the EU-China relations. Arms embargo that was a result of the massacre last till today, but other punitive actions were soon lifted. As the single market was completed in 1992, the EU was eager to expand its economic power and conquer other markets (Men, 2008). Attracted by the rapid development of East Asia, European Commission developed a New Asia Strategy (CEC, 1994), but to give substantial attention to China

a separate policy paper that for the first time concentrated on the Middle Kingdom was issued in 1995 (CEC, 1995).

In the paper, the Commission aims to determine a long-term strategy for relations with China. It acknowledges, that apart from rapid economic growth, China gets increasingly strong in political and military aspects, which makes it different from the rise of Japan or the USSR, which never combined all three aspects. Thus, it has a significant impact on international peace and global problems, so close engagement had become an important policy of the EU. It was once again widely believed, that only integration of China to global affairs would provoke the country to liberal reforms. Together with the efforts of the Bill Clinton administration, which throughout his presidency supported the engagement strategy, China entered the World Trade Organization in 2001 and got access to the world's markets with a green light from the European Union granted a year earlier. In 2003 the relations of the EU with China got an additional diplomatic push with the launch of Comprehensive Strategic Partnership, which aimed to take multilateral cooperation beyond the economy, to address more global challenges (Maher, 2016).

The rapid economic growth of China was possible to continue, but in the following years first signs of deterioration in relations between China and the EU started to reveal. In the area of trade, European countries have been increasingly upset about unfair Chinese competition, accusing Beijing of dumping the production costs in key sectors with unfair subsidies. Additionally, China was also addressed with concerns over currency manipulation and was vowed to devaluate the yuan that kept export level artificially high, which led to trade deficit on the EU's side growing faster than Chinese GDP². More complaints came with reports on intellectual property rights violations and the quality of Chinese goods, that did not meet European standards. On bilateral levels, many state leaders refused to attend the Olympic Games opening ceremony in Beijing, following the reports about human rights abuses and protest crackdowns in Tibet (Gill & Murphy, 2008). Despite continuous articulation of each other's problems and development of high-level dialog platforms, disputes remained mostly unresolved, but they were minor and did not affect overall good relations and optimism about them.

² Own calculations based on data from Eurostat. Since the Chinese membership in WTO to financial crisis in 2007 EU's trade deficit with China grew on average by 27% per year, while Chinese GDP, according to data of the World Bank grew by 10% annually in the same period of time. <https://ec.europa.eu/eurostat/databrowser/>

That might be to some extent explained by the Chinese ‘low profile’ strategy, which was derived from the doctrine of 24 characters formulated by Deng Xiaoping, to have rather a passive role in the international system (Kissinger, 2011, p. 438). At the 16th EU-China summit in Beijing of 2013, the relations were still good enough to jointly adopt the EU-China 2020 Strategic Agenda for Cooperation, which promised further cooperation on a wider scope of fields, including protection of human rights. However, the fifth generation of leaders that came to power in 2012 with Xi Jinping as a General Secretary, China started to take a more pro-active approach in the international system, which attracted more attention from the European countries.

At the beginning of the previous decade, China was mostly a receiver of foreign capital with a few Chinese investments abroad. That has very quickly changed and in 2017 cumulative value of FDI transactions between the EU and China equaled. Moreover, there were barely greenfield projects, but mostly merges and acquisitions, as some very important European flagship companies like Kuka or Volvo, have been taken over by the Chinese capital (Hanemann & Huotari, 2018).

Apart from economic expansion, Beijing has undertaken a political campaign to lure developing countries and their economic dependency on China. A global project of the Belt and Road Initiative (BRI) was meant to attract more countries into cooperation with China, as the West has been struggling with devastating effects of the financial crisis, absorbed with internal affairs, and with little intention of economic aid to third countries. To coordinate rapid Chinese actions with European interest, the EU-China Connectivity Platform was established in 2015. BRI not only could directly impact economic development in the European neighborhood, but also cause norms diffusion, which was often believed to follow with infrastructure investments (Vangeli, 2019, pp. 57-89).

In 2012, China created a 16+1 platform that in 2019 evolved to 17+1, that targeted Central and Eastern Europe. The effects of the platform so far are very limited, since the financing model and promotion of Chinese companies discourage many potential investors. The cumulative value of the Chinese investments in the EU’s countries of the platform (including Greece) between 2000 to 2019 amounts to 9,4 billion EUR³. Smaller score than the Netherlands alone, since Chinese investments are concentrated in Northern Europe (Kratz, et al., 2020). Although both the political and economic influence that Beijing wanted to achieve is discussable, Brussels perceived the initiative as an attempt

³ That contributes to 6% of total Chinese investments in the EU countries. However, due to Brexit it should be noted down, that almost 1/3 of them were in the United Kingdom.

to divide the EU and impact decisions on the highest level, which further undermined its trust towards China. However, in 2016 Hungary, Greece, Croatia and Slovenia did block the common position of the EU Council on China's activities in the South China Sea (Jakóbowski & Kaczmarek, 2017).

Announced in 2015 "Made in China 2025" was another alarming point, as it was clear that China has ambitions to compete in most advanced sectors, which poses a direct threat to leading European high-tech champions. However, the election of Donald Trump in 2016 halted down sliding EU-China relations, as both sides wanted to maintain multilateralism and a free global trade system, which the 45th president of the United States started to openly question.

1.2 Most recent developments

Negative trends of EU-China relations in the 2010s ultimately proved to be stronger, mentioning on top of that long-term unresolved differences which are hard to disregard such as disputes over the South China Sea, human rights, freedom of speech, or interference of the state in the Chinese market.

Thus, five major trends can be indicated, that made the EU more assertive towards China.

1. The first is the asymmetry of relations. The EU remains far more open for Chinese companies than the Chinese market to Europeans. The issue for long has been a major dispute among diplomats and at some point, Europeans seemed to be already tired of Chinese assurances that create a sense of promise fatigue.
2. The second is growing anxiety over security issues. China used to be considered only as an enormous market and economic partner, but in recent years aggressive acquisitions, development of high-tech industries such as the 5G network, and spying scandals revealed, that rise of China should be also seen in security dimensions.
3. The third are external challenges that China poses to Europe in the developing world through projects like BRI. It managed to gain both economic and political influence in many regions including European neighborhood as Africa, Western Balkans, and the Middle East, with the possibility of a New World Order with Chinese Characteristics (Xing, 2019).
4. The fourth is growing systemic differences. By promoting an alternative style of governance, China becomes a challenge for liberalism from the Western perspective. Moreover, with Xi's administrations, Europe became more concerned over Chinese actions in Tibet, Xinjiang,

Inner Mongolia, Hong Kong, and Taiwan, and the fact of the different understanding of values becomes more problematic.

5. The fifth is the unsteadiness of the international system as countries start to redefine their position and undermine the current order and a threat of a new cold war between the USA and China emerges, which might require third countries to determine their side.

On these trends, three concepts of the EU position towards China has emerged:

1. Strategic Outlook 2019

The first one is an idea presented in the Strategic Outlook published by the European Commission in March 2019 (European Commission, High Representative of the Union for Foreign Affairs and Security Policy, 2019). It indicates China with four roles:

- A cooperation partner, because the EU understands that global problems need to be solved together with Beijing. The EU and China share commitments on certain issues and cooperation on climate change or sustainability have to be continued.
- A negotiating partner, as economic agreements, including CAI, were still negotiated at that time and both sides should seek a balance of interest.
- An economic competitor, as the EU acknowledges that Chinese companies want to achieve the same goals as European, posing a challenge to their economic position and technological leadership, and the rules for this competition set by Beijing are considered to be unfair.
- A systemic rival, as China promotes different style of governance and has a different set of values that create an alternative to liberalism backed by the EU.

Moreover, the Strategic Outlook aims to address three issues.

- Response to the asymmetry of relations and seek reciprocity,
- Increase capability to defend domestically its interests, norms, and set of values,
- Utilize the possibility of cooperation whenever it is possible.

2. Sinatra Doctrine

Second is the Sinatra Doctrine⁴ that was formulated in September 2020 by Joseph Borrell – High Representative of the European Union for Foreign Affairs and Security Policy and Vice-President of the European Commission. The strategy refers to a position of the EU in the face of growing US-China rivalry, arguing that it should take ‘its own way’ and make decisions from European point of view, avoiding a situation where it would be forced to choose one of the sides. The EU ambition is to be an actor rather than a theater of global affairs. However, Borrell also underlines, that the doctrine does not mean equality with both superpowers, since the EU by shared institution, values and history is naturally closer to Washington than to Beijing (Borrell, 2020).

3. Strategic Autonomy

Before 2016 both China and the USA were crucial partners for the European Union. Transatlantic bond was based on security alliance, economic ties and shared values, while China was a promising partner for tackling global challenges and a lickerish developing market. Since the election of Donald Trump, both sides started to put more pressure on European countries on their critical issues such as economy, technology and trade. Threats from the two most important partners that the EU is relying on and cannot give up on one to favor another, pushed it to accept the need for Strategic Autonomy. Although there is no common view on how and until when it should be achieved, it is quite clear, that the continent needs a wider scope of its infrastructure, technology to rely on, cybersecurity and military. Simply the continent needs to get in charge of its critical interest rather than outsource this responsibility. It is also visible, that ties with the USA are more important and if Europe was indeed forced to choose, alignment with America would be more likely to be picked up. (Hellendorff & Nicholas, 2020)

The year 2020 to some extent accelerated these trends making European concerns more vital, as the US-China rivalry increases and the rise of China is more visible than ever before. It was also accompanied by two new kinds of Chinese diplomacies that divided the EU on the matter. Namely unequal mask diplomacy undermining the EU solidarity, and wolf warrior diplomacy concentrated on any criticism towards Beijing. The development of the Uyghurs situation in Xinjiang, national security law in Hong Kong and refusals to let international investigators study the origin of the SARS-

⁴ The name refers to a song by Frank Sinatra “My Way”. It has been already used in international relations before. In 1989, General Secretary of the Communist Party of the Soviet Union, Mikhail Gorbachev referred jokingly to the song to describe the idea of letting Warsaw Pact states to determine their own affairs. Now is often being used by EU diplomats to describe how the the Union should avoid being stucked in the middle of geopolitical conflict between tow global superpowers.

CoV-2 virus further made the EU approach towards China more awkward. That's because, on one hand it becomes obvious to Europe that it cannot change China, while on the other hand it is well aware that it has to continue cooperation on global issues and resolve economic differences. Thus, to stay coherent with its values, it has to be able to respond when the Chinese abuse them, while at the same time compete economically and cooperate globally. While the United States is promoting rather a straightforward idea of decoupling, such a multi-faced approach of the EU seems like Brussels would like to have its cake and eat it at the same time. However, rising populism often requires politicians to make clear statements instead of meddling around. In addition to a spike of unfavorable public opinion about China, it can impact the relationship and force decision-maker to move complex EU-China relations into a more simple direction.

1.3 Research Question

Overall, the European Union finds its relations with China in a particularly tricky position, where they are meant to serve many different strategies at the same time. These new circumstances, where China is seen both as a threat and opportunity started to be a dichotomy, or even a trichotomy with partnership, competitiveness, and a rivalry simultaneously.

The year 2020 marked the 45th anniversary of relations between two blocks and ended up with a conclusion over Comprehensive Agreement on Investment – economic deal, that was negotiated along with many controversies and agreed after a year of increased disputes between Beijing and Brussels. Now, it still has to be scrutinized, reviewed and ratified by the European Parliament, so it cannot be certain if the document will ever come into force. However yet alone an analysis of negotiations, content and the timing of the deal can bring many insights into the practical implementation of the EU's trichotomous policy. Thus this report aims to answer the following problem:

“Why does the Comprehensive Agreement on Investment fits into the European Union trichotomous strategy towards China, when both parties are facing the complexities of their bilateral relations?”

The deal has already been criticized from many perspectives, usually with arguments that the EU gives up on its values, transatlantic relations only to obtain questioned economic advantages. However, with a multi-faced approach it needs to be discussed, whether the agreement favors one

over another, spoils the assumptions of Strategic Outlook of 2019, or leaves enough space for more action on non-economic fields.

2. Methodology

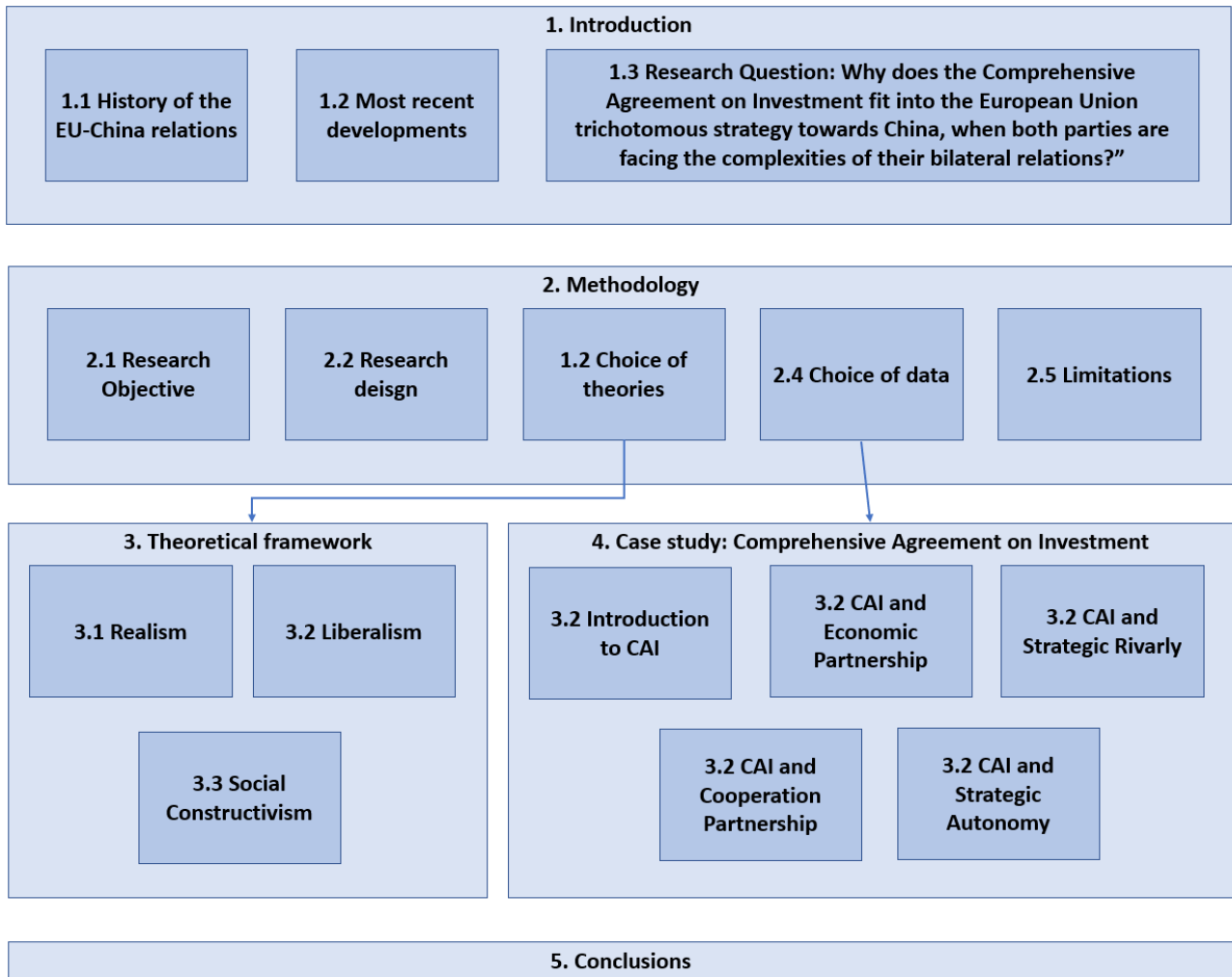
This chapter of the report presents the methodological approach of the conducted study. In the beginning, the objective of the thesis will be presented along with undertaken research design. Then the applicability of chosen theories will be clarified to understand how it will support addressing the research question. Further, argumentation for a choice of Comprehensive Agreement on Investment as the leading case study will be presented, together with means of data gathering. In the end it presents some limitations of the project.

2.1 Research objective

The rise of China in recent decades can be marked as a game-changer in modern international relations. The country quickly became a major player in all of the dimensions of the field and now can be considered not only as an economic powerhouse, but also a military one, as well as political, and production. Moreover, CCP has ambitious goals for further development, aiming to become a world's center for innovation and new technologies, which can shake established value chains.

Already a lot of attention has been put by scholars towards the review of relations between the two biggest superpowers of the world, namely the United States of America and the People's Republic of China. In the shadow of this growing rivalry, the biggest single market in the world tries to find its place in the new reality. China seems to be too important to ignore or decouple with, as Washington would like Brussels to do. On the other hand, it is conducting an alternative system of governance and undermines values promoted by the European Union. In this complex relationship, two mainstream theories of IR, realism, and liberalism tend to overlook some concepts that do shape reality. The study aims to acknowledge their continues relevance for analysis of the EU-China relations, but also to examine if IR theory of social constructivism can be used as an alternative theoretical framework of the relationship between two economic powerhouses of Eurasia, offering a more coherent examination with the inclusion of all relevant features. For this purpose, a case study of the Comprehensive Agreement of Investment has been chosen, as negotiation of the deal matched with an intensive year for the relationship between the EU and China and can be considered as an example of the multi-faced policy of Brussels towards Beijing.

2.2 Research design



2.3 Choice of theories

This subchapter will present theoretical frameworks relevant to a chosen case study. First, the school of realism will be introduced, as it gives the best overview of the geopolitical background of EU-China relations. Then a school of liberalism will follow, focusing on the economic interdependency of two blocks and institutional engagement policy conducted by the EU. In the end, the applicability of social constructivism will be laid out to show how it can fill the gap left by two mainstream IR theories and offer a framework including a wider scope of aspects that play an important role in EU-China relations.

2.3.1 Realism

Realism is one of two mainstream theories of International Relations. It takes into account primarily material factors, such as military power, technological development and economic capabilities. Especially the last ones are relevant for the case, as CAI is an investment deal facilitating investments between China and the European Union. Although the agreement touches upon other non-material issues, the scope of it is mostly developed around economic relations and was created for this purpose, while other provisions were rather additional. With the level playing field as a main theme of the deal, a realistic perspective on relative economic gains will be useful.

Another reason to choose realism as a first theory is that with the US-China rivalry world politics is increasingly more power-driven and conflict between two superpowers is mostly analyzed through this framework. New circumstances require EU-China study to include the perspective of realism since it becomes more widely used to understand big power politics in recent years. It helps to explain the geopolitical context of the deal, reasons Strategic Autonomy serves for and how the agreement can help the EU achieve it. Timing of conclusion of the deal during the transition period in the USA is a signal, that Brussels wants to decide for itself which seat to take in an ongoing conflict, rather than be told so.

2.3.2 Liberalism

Liberalism, which is the second mainstream theory of international Relations is also driven by material issues but puts them in a different perspective than realism. It gives a more complex understanding of economic relations, which is particularly relevant since two markets are closely interconnected. The power of states is no longer derived mostly from the strength of the army, but many other aspects connected to the economy, that CAI to a large extent addresses.

The deal was also marked by both sides as a victory of multilateralism. Parties agreed to cooperate more on established platforms and increase the significance of more organizations. Liberalist's focus on the role of institutions can not only highlight the relevance of CAI on this regard but also show threats that lack of the deal would pose. The agreement aims to diminish the lack of trust between both parties that were becoming larger in recent years and increase both side's ability to monitor each other actions. Both targets fit to the assumptions of Institutional Liberalism, which will be used alongside Interdependence Liberalism.

Liberalism as a framework for analysis of the EU-China relations has already been used for at least 30 years because since 1990 Brussels started to enhance engagement policy, hoping that through integration to established institutions China will become more liberal and adjust itself to the modern Western values. It is questionable if this strategy did actually worked, but CAI is a clear sign, that the EU has not yet given up on the idea and the theory is still useful.

2.3.3 Social Constructivism

Realism and liberalism as two mainstream theories of International Relations have already been widely used to analyze EU-China relations. However, the constructive approach is rarely being chosen, and thus, the role of the European identity, which is not that simple to define is often being lost, while having a significant impact on the EU's foreign policy.

Apart from economic interest and the role of international actors, constructivism is also interested in how those two factors interact with social norms and sense of identity. It is a great tool to analyze not only how a specific identity is being created, but also why it is being used in a certain way. The breakthrough of the theory to the field of International Relations matched with the end of the Cold War, as two mainstream schools could not predict nor explain well enough what has actually happened (Theys, 2017, p. 36). It can be argued that a similar gap occurs in the study of EU-China relations. Just the sole statement from the Strategic Outlook, that from the European Union's perspective China is an economic competitor, strategic rival, and negotiation partner should be a hint that the social constructivism could be applied to examine this strategic relationship. That is because the theory does not neglect concepts developed by others, but rather tries to build upon them. The paradox that China can be seen both as an opportunity and a threat to the European Union can be explained by constructivism, while traditional theories would move it in one direction instead.

Multiple features currently shape the relationship. With rising tensions between the USA and China, it is becoming more complicated for the EU to find its place between both sides. Those focused on the economy would outline differences in the level playing field for foreign investments between both economies and opportunities that closer ties would bring, highlighting that China is a promising market and the European companies would benefit from having an access to it. CAI includes provisions on non-material issues, so the scope of liberalism is also be limited, as it would rather focus primarily on open cooperation without paying attention to other details, that overall were significant during negotiations. There is no doubt, that disputes over human rights, labor rules, and a

threat of norm diffusion do also have an impact, and analysis of those factors should not be omitted. On top of that, there is a self-perception of the European Union as a global actor, that has to lead and tackle the most crucial issues faced by humanity together with other parts of the world, such as climate change, pandemics, and rising protectionism.

With so many issues on the table, it is constructivism that can take the remaining aspects into account and examine their impact on the relationship. Rationality and economic factors already in the history of EU-China relations were not enough to fully understand it. For example unexpected hostility with canceled summit before the 2008 Olympic Games in Beijing, after over 10 years which were even named a “honeymoon period” (Jørgensen & Wong, 2016). The same case happens today when the push for deepening economic relations corresponds with rising concerns about normative issues.

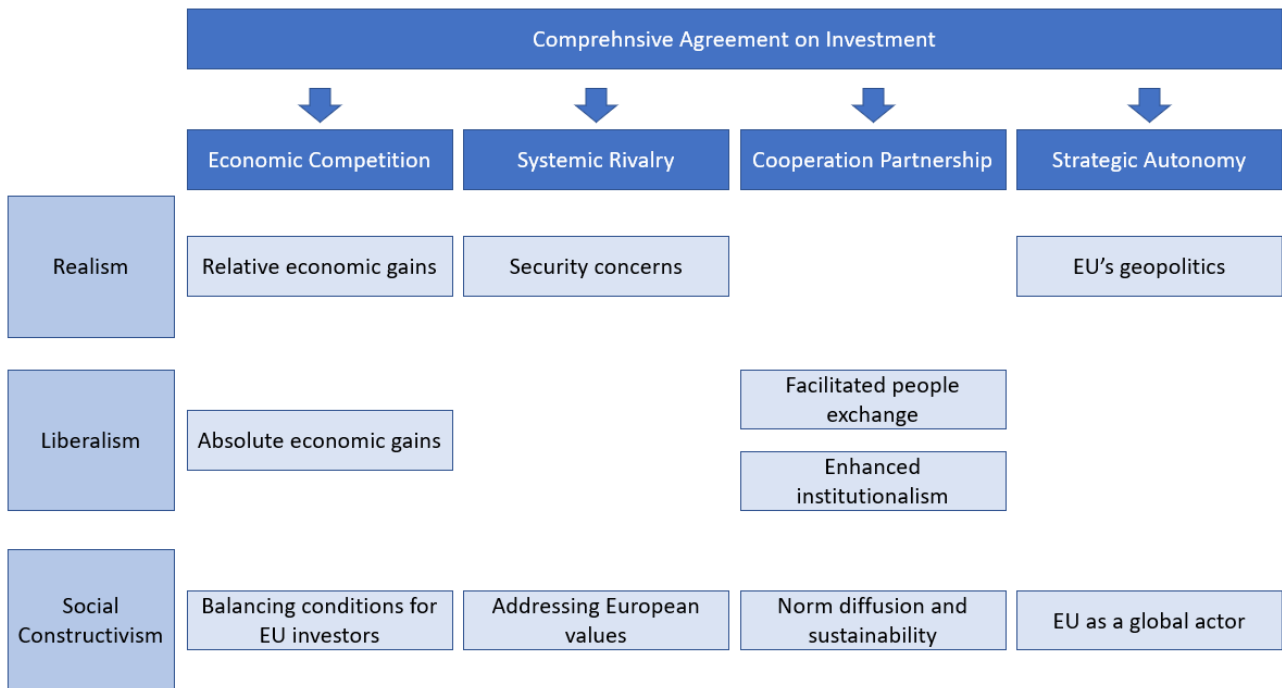
2.4 Choice of data

For the purpose of this report, a case study of Comprehensive Agreement on Investment has been chosen. The document itself focuses mostly on economic aspects but also touches upon labor and human rights. However, the negotiation process, reactions of top decision-makers, and all other events that have happened alongside the conclusion of the deal give much more insight into the multi-faced approach of the EU. Thus, the agreement cannot be analyzed solely from the perspective of its impact on the economy and markets. The political circumstances and timeline also have to be taken into account and only with the inclusion of summits, meetings both on Union’s and member states’ level and other events with political consequences, the mapping of a landscape in which the deal was reached can indicate how it corresponds with assumptions of the Strategic Outlook from 2019.

To answer the research question, a case-study will be analyzed from four dimensions. In order to understand why CAI fits into EU’s trichotomous approach to China, the study will look at its links to all three aspects: economic competition, systemic rivalry and cooperation partnership. Since ideas of Strategic Outlook from 2019 correspond with goals of Strategic Autonomy, it will be added as the fourth aspect through which CAI will be analyzed. It will not be discussed which issues are reflected stronger and play more important role, but rather they will all be presented to show why CAI is more than just an investment agreement.

All four aspects will be discussed accordingly with theories implemented to the projects. The graph presented below can serve as a map of conducted analysis. All four dimensions of the study of the

deal will have their own issues that the agreement targets at least to some extent targets. Each of them also corresponds to a framework of one of the given theories.



The research will be based both on primary and secondary sources. The first one will include official statements of decision-makers, papers issued by the official bodies of the European Union and China, as well as the document of the agreement itself. Latter will be mostly based on analysis conducted by foreign policy think-tanks or comments of renowned scholars and specialists of the field that can indicate what part of the deal can matter the most.

As the political future of CAI is not yet certain, the report will be concluded with the most relevant controversies and trends within and beyond the European Union, that can scuttle ratification of the deal. For this purpose, both quantitative and qualitative data will be used, such as opinion polls, comments of most recent events by relevant decision-makers, and the media's narrative.

2.5 Limitations

The most important limitation of this project is the fact that the future of CAI is uncertain and quickly evolving, exposing it to new circumstances that may suddenly occur and highlight one analyzed issue over another. The report uses only the International Relations theoretical framework, while the deal could be also studied through a perspective more focused on International Political Economy,

sociology and international economy. Moreover, it takes the European Union's point of view as a central point of departure for analysis, while the Chinese narrative is introduced rather briefly. Accordingly, it implements theories founded in the West, without mentioning Chinese IR ideas.

Additionally, usually, foreign policy is an extension of domestic policy, but with the complexity of EU decision making, it is not worth concentrating on the internal affairs of each member state on cooperation with China. Every country has its own agenda, but for purpose of this report, European Union is treated as a coherent block, since the deal concentrates on trade which is the exclusive responsibility of the European Commission. Domestic concerns may influence the political future of the agreement and other aspects of foreign policy are shared or exclusive responsibility of member states. Nevertheless, the report focuses mostly on policy papers and strategy developed on the EU level, analyzing it as a whole and evaluating its common interest in the world, rather than each member state separately.

3. Theoretical framework

This chapter is meant to present the theoretical framework and its applicability to the study. At the beginning an overview of the theory and its relevance for the case. Then all three vectors of the EU trichotomic approach to China will be put into Social Constructivism's perspective, beginning with material factors for economic competitiveness and negotiating the partnership, non-material factors for the systemic rivalry and European identity, and the EU's role in the world for cooperation partnership. All three theories will be accompanied by some reflections on their relevance for a studied case.

3.1 Realism

Realism is a pessimistic school of International Relations. According to it, the international system is anarchical and consistent of conflictual states that compete against each other and are driven by the lack of trust, security concerns and state survival. They exist in a world of a zero-sum game, where one's victory is another's a failure. Their behavior is derived from a pessimistic view of human nature, which is universal and highly egoistic (Jackson & Sørensen, 1999, p. 68). People desire and enjoy having an advantage and try to avoid being dominated. According to Hans Morgenthau, one of the leading realist scholars of the last century, everyone has a 'will to power' and it affects international politics which is its 'immediate goal', while political actions are all means of acquiring it (Morgenthau, 1965, p. 195).

Since all states are selfish and mistrust to each other, there is a shared level of uncertainty over the international system, which is a zero-sum game. Its shape is determined by a struggle between the most powerful countries over domination and security, which is often referred as big power competition. However, states are also rational and since driving forces for their decisions are meant to maximize the national interest, particular actions can be predictable. Realism does not exclude international organizations or close bilateral cooperation, but their purpose is to serve and increase the national interests, within which states are aiming for relative gains. While making decisions on the partnership it is more important to get an advantage over the adversary state and end up the more beneficial one. Absolute gains would be pointless if a counterpart gets relatively more. Values and moral standards are relevant only in the private sphere, while in public and politics, struggle for power

deprives them of meaning and they can be used solely as a tool serving the national interest (Jackson & Sørensen, 1999, pp. 65-105).

Within the school of realism, there are three main branches of classical realism, neoclassical realism and neorealism. They differ in assumptions whether the foreign policy is driven primarily by the domestic one or by the international system, the role of other factors shaping it and whether power is the target or a means of foreign policy. For this study, basic assumptions of the school of realism would be enough without going deep into further details, however neorealism seems like the most relevant branch since it highlights the role of great power competition as the driving force for the state of the international system, within which all other actors are functioning.

That is because European Union and China do not share any border, and on the global and regional level do not have any fundamental security concerns (Li, 2016, p. 17). Indeed, there are things to be worried about such as, systemic differences, technology, economic dependency and influence in the developing world, but none of these issues is even close to becoming an existential threat in foreseeable future. Having that in mind, the most important insight that theories of realism can provide to the case is the framework for analysis of the geopolitical situation the European Union finds itself within the rising US-China tensions.

Realism is a theory most often used for the US-China rivalry. It acknowledges that the USA obtain a global hegemony after the Cold War, which is now being challenged by an unprecedented rise of China. The position of the USA as the world's single superpower created a sense of stability and security. Losing even a regional one in a given part of the world would automatically deprive America of hegemony and thus pose a threat to its security. Its regional impact in North-East Asia is particularly concerning to China, which sees it as a threat to its further development, being its primary security concern.

Realists predict that the conflict is unlikely to diminish and the US will try to curb the further rise of China in dimensions from the economy, through technology to the military. In the meantime, China will be using its growing power to undermine the US-led world order and challenge the American hegemony (Jensen & Andersen, 2020). Both countries are likely to use their diplomatic relations for these purposes. The European Union can end up being pressured by Washington to decouple with China and isolate it alongside the USA, similarly to the containment policy designed to curb the influence of the USSR during the Cold War. On the other hand, Beijing can push for more cooperation

favoring multilateralism and depriving the USA of allies in their fight against China. However, the EU acknowledges that China is not the Soviet Union and is simply too relevant and attached to global trade to ignore it, while admitting that ties with the USA remain more important and transatlantic bonds are crucial for European security and values. To put it straightforwardly, Brussels do not want to find itself as a battlefield of the conflict, sustaining close relations with both superpowers and deciding on their structure for itself. Thus realism provides an analyzed case with important background, that determines the EU's position in the rivalry and helps to understand to what extent does the agreement helps to obtain its Strategic Autonomy.

The second dimension that realism can help with is an economic advantage. It is logical for states to cooperate and trade if its relatively more beneficial for them or if thanks to closer economic ties, it is possible to catch up with some handicaps. As the level playing field is the most important target of CAI, the economic impact can be studied from a realist's perspective. It must be then discussed if investors from European Union are going to compete on the Chinese market on more fair conditions and if the agreement provides them an advantage over entities from other parts of the world, that would not benefit from the full scope of the market access promised in CAI.

3.2 Liberalism

The liberalism which is the second mainstream school of International Relations follows realism's assumptions about anarchical international systems and countries driven by their self-interest. However, other assumptions like those on the zero-sum game, political reasoning, economic gains and international cooperation are quite opposite.

There are two main philosophers that gave origin to the thought of liberalism than later enter the field to International Relations. First, John Lock came up with an idea of 'state of nature' referring to anarchical chaos that would reign without countries. Governments, by supervising every citizen's right to life, liberty and property, take out from individuals' responsibility to protect themselves, that otherwise would cause them to a constant struggle for safety. States that respect these three values would also respect others and coexist in congruence with norms of mutual respect and toleration (Jackson & Sørensen, 1999, p. 109). In contrast to realism, states can trust each other and do not need to be constantly worried about their security.

The second scholar was Adam Smith, a father of modern economics. His idea of absolute advantage, then developed to comparative advantage by David Ricardo's comparative advantage, argued that international trade is beneficial for all and should be enhanced for the purpose of economic development. It is not important if one country gets more than another, but what matters is that both gain something. The world is a positive-sum gain, which means everyone can benefit at the same time and the advantage of one does not mean constraint of another. (Jackson & Sørensen, 1999, p. 181).

Within the school of liberalism, there are multiple branches of theories that pay more attention to chosen issues. For the purpose of this study, two of them seem to be particularly interesting. First is Interdependence Liberalism, which argues that events in one country can affect another one, which seems to be increasingly relevant in the face of globalization. Nevertheless, it is economic interdependence that matters most. With Smith's assumptions, international trade was enforced, which created global supply chains and economies closely connected to each other. Industrialization and mutual reliance reduced the need and significance of the army, as arm conflict is less probable and in nobody's interest. What matters more is economic development and people's welfare. (Jackson & Sørensen, 1999, pp. 114-118)

Because of that, although in history population, army, natural resources and territory were the key to national greatness, today it is rather an access to a qualified workforce, innovation and financial capital that matter more when a power of a country is determined. A decrease of importance is similar for the power of government since far more complex relationships between countries are developed on many levels and through more non-state actors. Rulers that once have a monopoly on foreign policy with the primary source of power execution in the military, shared their responsibilities with civic groups, corporations, ministries that use different narratives. (Keohane & Joseph S., 1977, p. 23). Relations between countries are now conducted by an uncountable amount of people with a small share of official diplomats. Travel possibilities and easier entry requirements are also a key that further strengthens deeper people-to-people connections.

In 2020 China has become the EU's largest trade partner, so the concept of interdependence is highly applicable, especially that communication between both blocks is also much more complex than in any other case. When it comes to high politics EU as a supranational organization has exclusive responsibility on certain issues such as trade, and its own officials responsible for foreign negotiations on all levels. Along to that, there are whole governments of member states, that in every 27 cases also

contribute to EU-China relations. On top of that there is low politics, that consists of all people to people and business to business relations that are far more numerous and have a significant impact on the shape of the relationship between both parties.

Economic interdependence and complex communication channels require structures to exist within. What is one of the major distinctions between liberalism and realism is that the former does not limit itself to states as the only relevant actors of the international system, but also acknowledges the role of transnational actors, such as multinational corporations, civic societies, international organizations and non-governmental organizations. What can make such cooperation easier are international institutions, which are the main point of departure for the second theory within the school of liberalism – Institutional Liberalism. Launched to enhance international cooperation, international institutions can promote further ties, and alleviate trust concerns and fears of some states, since it's still natural in an anarchic international system. Albeit their role is important, they are not a guarantee of open cooperation, because their relevance is derived from states, which are the final actors. The level of settlement within a given institution differs with some deeply connected as European Union and others limited to a platform such as OECD.

The theory proposes three means to assess the level of institutionalization (Keohane, 1989, p. 4).

1. Commonality, which refers to a scope of expectations and understanding shared by participants.
2. Specificity, analyzing how clearly are expectations of states specified.
3. Autonomy, which examines if a given institution is able to execute its rules, or depends on outside agents such as states.

CAI enhances established rules-based order and is supposed to empower the role of existing institution. The deal itself creates also its own rules that can be analyzed within the framework of Institutional Liberalism, as there is already a lot of controversies, whether provisions of CAI are specific enough and if it is going to be able to secure them.

3.3 Social Constructivism

Nichols Onuf is usually considered to be a scholar that in 1989 in his book *World of Our Making* introduced constructivism as a theory of International Relations, where he claimed that it is not only the material interest that affects state's decision but also the language of diplomacy, identity, rules

and norms (Onuf, 1989). He argued that the perception of reality is socially constructed and should not be examined by some universal codes.

The international system consists of both material and ideational elements that together form structures, which impacts and can be influenced by the ability to act of agencies (Theys, 2017, p. 37). In this example, material structures are economic ties between China and the EU or security concerns, while ideational are both side's narratives, self-perception, and meaning attached to material ones. When it comes to agencies, numerous political bodies and institutions currently shape EU-China relations. Apart from officials in Brussels and Beijing, there are also member states, international organizations such as WTO or think-tanks. Especially latter bodies recently have realized how much they can affect and be affected, as Berlin-based MERICS was one of the four institutions suffering tit-for-tat sanctions from China in March 2021 (Global Times, 2021).

Constructivism is quite coherent as a theory and does not have many disputes between scholars when it comes to basic assumptions. The main division between conventional and critical constructivism is about what is actually being studied. According to the first one, thanks to the analysis of actors' identity it is possible to predict and understand their actions. It tries to conceptualize what has happened, that certain narrative has developed, or what caused it to change, to be able to foresee its effects in the future. On the other hand, the critical one is more focused on the past, studying how certain identity is being created and constructed. It tries to decompose it into the prime factors and find out the key components. It pays particular attention to language and communication, which are believed to play the most crucial role in shaping and changing the social reality (Theys, 2017, p. 38). In constructivism, the narrative around certain issues shapes their perceptions. Usually, most of the studies do not pick up only conventional or critical one and position themselves somewhere in between. That is also a case in this report, as both *what?* and *how?* types of questions are going to be answered to understand the status quo of EU-China relations.

The European Union is a supernational organization, not a country, thus it is tricky to put it into theoretical frameworks designed to examine relations among states. However, in this particular case, that situation creates multiple platforms of communication, enabling to express different objectives by different actors, as the theory allows to have separate policies depending on a specific agenda and interest. While, the European Parliament can stress out an aspect that China sees as its internal matter, like in Xingjian or Hong Kong, the German presidency may push towards economic agreement at the same time. If a particular state advocates against China it could be expected to be met with a hostile

response, which would spoil negotiations and froze relations on the highest level, as could be seen in the case of the Czech Republic officials' trip to Taiwan. The complex governance of the EU enables it to keep its door open for various policies. While Czech-China relations are recently hostile, negotiated by the EU officials CAI is meant to benefit Czech companies as well. Traditionally some countries like Sweden or Poland are more skeptical towards China, but since trade is a domain of the EU, those various interests can be divided to be expressed by unrelated actors.

Both markets are simply too closely connected, to dismiss the need for cooperation, especially considering opportunities that the possible open Chinese market gives to the European companies. Most of the European entrepreneurs still have hopes about export and investment options the Middle Kingdom can provide, and even more import some part of their supply chain from there and desire easier regulations and simpler bureaucracy. At the same time, there is a growing ambiguity over the rise of China, which is seen as a mystery and often as an evil regime, the European Union takes actions against. Adding on top of that growing USA-China rivalry, the EU finds its relations with China in the point when it has to take into account many different issues, that ask for opposing actions at the same.

What social constructivism mostly criticizes about liberalism and realism, is that they both focus too much on the material factors such as economy or military power, while neglecting the social context of International Relations. However, this observation does not really function the other way around. According to one of the precursors of the theory – Alexander Wendt “social structures do include material resources”, and constructivism is “compatible with changes in material power”. They cannot be reduced to capabilities alone and have to be put into the context of shared knowledge and understandings (Wendt, 1995). Thus, it gives more tools for examining economic relations between two powerful blocs, takes into account not only the profitability of the cooperation but also other factors, that can be easily mistreated.

Economic indicators and trade numbers have to be studied with social meaning that is attached to them. Both markets are depending on each other, but since 2016 there was an increasing amount of complaints among European companies, that the economic relationship, especially in the field of investment has been uneven. While the European market has witnessed a rise of Chinese investment, both in M&A and greenfield projects and the country has become 2nd largest foreign investor, the same could not be said about the other way around. Access to the Chinese market remained highly

restrictive with the slow growth of new foreign investments and European companies found out, that they were not able to compete against local entities, particularly SOEs (Le Corre, 2021).

Moreover, self-perception also plays a crucial role in the theory. Common beliefs between people, countries, and organizations constitute the states' and groups of states' ideas of who they are and represent (Aglus, 2016, p. 76). European Integration was built on economic development. Relationship between European countries that throughout history used to be hostile and based on mistrust and enmity, but in the second half of the last century evolved into friendship and peace, thanks to economic progress and a shared sense of mutual gain. That identity of building a more cooperative international system is focused not only on Europe but on the whole world as A New Strategy Agenda points that, it should lead the “response to global challenges”, promote “sustainable development” and “its unique model of cooperation as inspiration for others” (European Council , 2019). In that context, it can be argued that success on the European continent obligated it to share ideas about liberal markets and open trade around the world and cooperate with non-European countries on the same basis. Moreover, as the organization that so far managed to integrate countries to the deepest level, it is also perceived by other countries as a trendsetter of economic integration and many countries around the world seek to gain open access to European Single Market. Thus, the economic ties do affect the self-perception of the European Union and its foreign action.

European continent gave origins to the modern understanding of human rights and liberal values. Those are often considered to be universal and on a fundamental level should be respected all around the world. Powerful countries that are advocates of them, should engage their application around the world and support those who are oppressed. Although it can be against economic interest, the socially constructed morality of the European countries has already affected EU-China relations in the past. That was the case for arms embargo after Tiananmen Square Massacre, canceled summits after some leaders met with Dalai Lama, or most recently sanction over 10 Chinese officials responsible for the oppression of Uighurs in Xinjiang.

According to the theory of constructivism, countries are creating allies and cooperate focusing not only on material interest or security concerns but also due to common perspectives on surrounding reality. The arch example provided by Alexander Wendt of applicability of this theory is the fact, that Washington is far more concerned over five nuclear missiles in the possession of North Korea than five hundred British ones. The United Kingdom is located much closer to the American borders and has better technology capable to strike the East Coast, yet it is economically weak Pyongyang that

American security experts are more concerned of. That is because British and American people share the same culture, history, and values, that already in the past bonded them together. So the identification of the security concern is not solely based on material structure, but ideational one.

In the case of this report, similar observations can be made. The EU officials and public opinion are far more concerned over an economic deal with communist China, than already enforced one with communist Vietnam. Although the sizes of both countries are incomparable, both promote an alternative system of governance oppress political opposition, and are economically successful, it is China that has a bigger impact on global affairs and simply brings more attention to the people with its assertive policy and relevance for global trade. EU's concerns over China are constructivism's intersubjective structures, but both parties have the capacity to change it through their agencies. Their behavior is highly affected by their beliefs and if both sides find common ground, enmity doubts can be changed to friendship and trust. Such an approach is substantially different from realism which takes reality for granted, while constructivism argues that it is always subjective (Theys, 2017).

EU-China relations are not predetermined but are derived from a complex mixture of economic ties, values, security, and global challenges. The result of this mixture is probable to differ, depending on a factor which at that time is most significant. If for example, China decides to attack Taiwan, the relevance of economic ties to the EU would be marginal, as the West would want to discourage arm conflict by the means of severe sanctions and isolation of Beijing. If CAI would indeed bring some progress for global climate change actions, then more trust would arise between both parties and further openings on new issues could be expected.

However, European concerns over China are not only limited to humanitarian aspects. As the largest producer of greenhouse gases, the climate actions of China are crucial to tackling global warming. The European Union that sees itself as a promoter of sustainability and energy transition, is well aware of the fact that without China environmental catastrophe is unavoidable. Both sides share some understanding on that matter, as Xi Jinping has announced that his country is going to be carbon neutral by 2060 (McGrath, 2020). In constructivism, the same perspective on a vital issue is already enough to launch common action, despite differences in other areas.

Another important factor that according to constructivists shapes International Relations is language and narrative about reality and identity. To paraphrase famous citation of Alexander Wendt, that "anarchy is what states make of it" (Wendt, 1992), it can be argued, that particular relations are also

constructed by official narrative and self-perception and the shape of ties between two blocks are what both are making of it. The EU-China relations reached a tricky point, where no single coherent approach would be perfect for Brussels. The 5th generation of leaders under Xi Jinping's administration turns to a more authoritarian regime and the promotion of a different governance model started to be problematic both from the perspective of the European values and its interest in the around the world. At the same time, the economic connections and size of China make it necessary to cooperate and engage with the country, while also acknowledging, that both economies are becoming less compatible and more competitive, starting a technological and innovation race. Having that in mind, a trichotomic approach has been developed, creating a necessity for multifactor attitude accordingly.

The EU, thanks to the size of its market is the world's center of economic integration. Due to that position, it set standards and norms followed by different countries, that develop their products with the ambition to reach European markets. Social constructivism considers norms diffusion to be an important factor of international relations. It is a three-step process when after the desired norm is first set, then internalized to ultimately be universalized (Wendt, 1992, p. 413). Economic protectionism of China along with the integration of the countries with the world's economy may lead to a promotion of standards that originated over there and undermine the position of the West. Possible norm diffusion of Beijing is a concern both for the USA and European Union. China has already launched some international platforms contrary to established institutions such as Asian Infrastructure Investment Bank (AIIB) or BRI. International integration within them is not in the EU's interest, thus the block needs to try to engage both China and other countries within existing norms and rules. That refers also to tackling global challenges such as climate change. European Union does not limit its action to Europe alone, but is a global actor that has ambitions to lead the world's efforts towards sustainable development under its own supervision and ideas.

4. Case study: Comprehensive Agreement on Investment

This chapter presents the case study that has been chosen for this report. First, it will briefly introduce the idea of the Comprehensive Agreement on Investment and then it will analyze its relevance for the trichotomic approach of the EU towards China and its Strategic Autonomy. First, by focusing on the economic context of the deal it will examine its relevance for the economic competition. Secondly, non-material aspects of the deal will be examined to assess its impact on the strategic rivalry. Thirdly,

4.1 Introduction to CAI

In February 2012, the first political agreement between the EU and China has been reached to launch negotiations over a deal that would regulate investments between two economic powerhouses. After almost 8 years and 35 sessions, both parties finally conclude the principles of the Comprehensive Agreement on Investment on the 30th of December 2020. As European Commission underlines, the agreement is the single most ambitious deal that China has ever agreed on with an external partner (European Commission, 2021). The deal was reached after an unexpected acceleration of negotiations and serious provision from the Chinese side, which previously Beijing did not want to agree on. Despite the breakthrough of a deadlock, the timing of the conclusion is controversial, so is the scope of the agreement and enforcement mechanism. Covering a wide scope of areas and being commented on from many dimensions, CAI deserves a closer look to examine how does it correspond to multi-faced diplomacy towards China, proposed by the EU in 2019.

The deal aims to balance the economic relations between both economies because European Union remains far more open for Chinese investors than China for Europeans. Beijing through numerous protective policy hampered EU investments, while back in Europe much more was allowed. The deal has four major parts. First concerns market access, opening up multiple Chinese manufacturing and service sectors for the EU investors. The second is about a level playing field, to ensure fairer competition between European and Chinese entities. Third touches upon sustainability and labor rights. The last part concerns dispute settlement and monitoring schemes.

4.2 CAI and Economic Competition

China for a long time has been accused of unfair trade practices, that favored their country to become an export giant. Although Chinese products started to flood the world, it was incomparable harder for foreign companies to establish an entity in the country and compete with local companies on the most numerous market in the world. Suggested malpractices included limited market access, interventionism and protectionism of the government for SOEs, unclear system of subsidies that helped Chinese companies to conquer foreign markets, manipulation of the rate of RNB, using rules-based international order to own advantage or utilization of forced labor and degradation of the environment.

An assertive policy of Beijing about the Chinese market created a sense of lack of reciprocity in Europe. Many industries found it unfair, that Chinese companies can enter the European market thanks to their government support, offer lower prices and compete with established cutting-edge champions, while the Chinese market remained almost closed or required the establishment of joint-venture and forced technology transfer.

Tackling this sense of unfairness is the main point and target of the Comprehensive Agreement on Investment. As it is highlighted by a document issued by the European Commission, it will “rebalance bilateral investment conditions” (European Commission, 2021). Chinese restrictions on foreign investment are one of the highest in the world. According to OECD’s FDI restrictiveness index from 2019, it is four times higher, than the organization’s average (OECD, 2019). They include such practices as, equity caps, joint-venture requirements, quantities limits, or outright prohibition. Under CAI, depending on a sector, those are going to be partially or fully lifted. It includes financial, telecom, health services, or manufacturing, which accounts for roughly half of the EU’s FDI in China so far. However, there are sectors sensitive for both parties, that are not included in the deal, such as agriculture for the EU and most of the R&D for China. The main purpose of the market access’ aspect of the deal was to rebalance the relatively low GATS binding of China with the EU’s high. The latter made fewer commitments in this regard, as it is already open and committed to established rules (Godement, 2021).

Another crucial issue of the deal is the level playing field, understood as balancing asymmetry in conditions for foreign and local companies on the Chinese market. One of the main points touched upon is forced technology transfer. In order to stay in the Chinese market, even 16% of the EU

companies have felt pressured to share valuable knowledge with Chinese entities. However, this ratio differs across industries, with even one-third in the innovative sectors. (EUCCC, 2020). The second problem to face is the significant role of government in the Chinese economy, as SOEs contribute to even 30% of the GDP and 40% of the total number of enterprises registered in the PRC (Zhang, 2019). Their projects are often considered to be resolved in favor of national companies over foreign competition, which makes EU investors feel discriminated.

CAI prohibits forced technology transfer. The deal lists types of requirements for investments, that will be understood as such. In licensing, there will be no interference of contractual freedom supplemented by increased protection of sensitive data from unauthorized collection. More disciplines will be put also on SOEs, which will have to act accordingly to commercial considerations, and will be more accurately defined. They will be not allowed to discriminate against EU investors in sales and purchases and function with transparent obligations and under special consultation mechanisms. When it comes to subsidies, CAI requires transparency in the service sector and obliges China to participate in consultation regarding any subsidies that can harm the interest of the EU investors and seek to address the negative impact they may have. One more non-tariff barrier was balanced, as both parties are obligated to treat all entities equally in standard development and commit to the transparency of licensing administrative regulations, and fair right to judicial review (European Commission, 2021).

Even if the provisions of the agreement look promising on the paper, the deal has to set rules for disputes and protections of set rules in order to be effective. What may be most bothering for a deal that is focused mostly on investments, there is no dedicated section for their protections and dispute settlement as both parties agreed to reach a consensus within 2 years after the conclusion of the deal. One political reason, is the investment protection is a shared competence between the EU and member state, so the inclusion of it would mean, that CAI would have to be ratified by all 27 national parliaments, rather than just the EP, making it much less probable to come into effect. This problem is limited not only to China, as the EU's Free Trade Agreements with Singapore and Vietnam that proposes International Court System for investment disputes, have not yet been ratified by all member states, and negotiations over that aspect with Japan have been upheld in 2019 for a similar reason. If no agreement will be reached within the given deadline, bilateral treaties of each member state concluded with China in the past will remain in force with state-to-state mechanisms (Godement, 2021). China so far has also refused to sign the WTO Government Procurement Agreement, but there

are some hopes, that the organization can be reformed in coming years, which will solve the problem and make both parties agree on something specific. Until then, CAI in terms of disputes refers to consultations, specifically established arbitration panels, and transparency of the procedures (European Commission, 2021), which by many critics is not enough to ensure the adaptability of the agreement (Godement, 2021).

There is a lot of controversy over the agreement, that it does not fully open the Chinese market, lacks guarantees and that simply more could have been achieved. CAI also barely focuses on the issue of intellectual property protection, which is another key concern of foreign investors in China (Cohen, 2021). Nevertheless, the European Union addresses a wide scope of concerns of the European companies expanding to the Chinese market, facilitates complicated regulations, and promotes global trade, which is one of the key-point of its identity. CAI not only obliges China to respect established rules under GATS but also, in most cases makes it easier for all WTO members thanks to the Most Favored Nation rule (Godement, 2021). Furthermore, CAI has a ratchet clause that will automatically grant EU firms the same offer in case of further opening of the Chinese market and provision forbidding backsliding of given commitments (Stec & Chimits, 2021). Thus, the EU's determination to conclude the deal does have a goal to help to strengthen the rules-based environment of the global trade, which is one of the official agendas of the Union, corresponding with its identity.

Provisions that are not going to be included within the Most Favored Nation rule, are going to remain a competitive advantage for the EU investors. Since the EU already complies with most of the arrangements of CAI, it is the Chinese side that opens up. The agreement is then a relative gain mostly for the EU entities, as its ratification would significantly improve their situation on the Chinese market, while even back in Europe the competition is going to be fairer. Additional relative gain is when third parties are taken into account, that would not be able to benefit same provisions as European investors in China.

4.3 CAI and Strategic Rivalry

China contributes to 28% of the world's CO₂ emissions (UCS, 2020). Its impressive economic growth in recent 40 years matched with unprecedented environmental degradation and in recent years additional concerns were raised about the issue of forced labor around the case of Xinjiang. CAI includes several elements of sustainable development enforcement. Most significantly, labor and environmental standards are not allowed to be lowered to attract further investments. It also commits

both parties to effective implementation of the Multilateral Environmental Agreements (such as the Paris Agreement or the UN Framework Convention on Climate Change), ratification of the International Labour Organizations Conventions on labor, and promotion of Corporate Social Responsibility of businesses. All of these actions will be accompanied by increased transparency, facilitated by further involvement of civil society groups in the process of application of dedicated provisions, government consultations, and recourse possibility to an independent panel of specialists (European Commission, 2021).

Once again, on paper, the agreement looks promising for European values regarding protection of the environment and forced labor. It bides China to existing frameworks promoted by the European Union and implements a European sense of sustainability. However, for example, in terms of ILO Conventions, it does not determine any specific timeline. It commits parties to ‘continued and sustained efforts on its own initiative’ for their ratification (European Commission, 2021). This type of wording indicates, that this aspect may not be supervised by both parties review and is more a promise to keep rather than a provision to sustain. Moreover, it is not expected by the European side, that China will make any significant progress on this aspect in next year, as France’s Minister Delegate for Foreign Trade and Economic Attractiveness Franck Riester said in January 2020, that the EU will no insist on a complete ban on forced labor by China before the ratification of CAI, but rather it should agree on a calendar for reforms instead (Vela, 2021).

Separation of values and economic interest becomes more challenging, however, both aspects in the modern world cannot be divided anymore. The size of the European Union matters and the block’s trade policy is one of the most foreign policy tools. High Representative Josep Borrell argues that Brussels should leverage its trading power “to promote EU interest and values”. He also notes, that trade policy is an exclusive competence of the European Commission and in contrast to foreign or security issues, it only needs a qualified majority instead of unanimity. It creates a possibility of rapid adaptation and quick decisions in case it needs to be used as a pressure tool. By economic means, CAI is trying to make some provisions in China regarding suitability and human rights. The question is whether these changes are likely to be enforced and how the trade policy will be used in case of further hostility between two blocks. The European Union can find itself in a position where usage of its only tool that is able to seriously influence China can also mean losing this tool. CAI aims to develop more interdependency between two economic powerhouses, so more tools could be possibly developed in the future, but failure to ratify the deal accompanied by trade disputes and sanctions

over sensitive issues could lead to decoupling and a situation, where the EU has no more real leverage over Beijing. Such understanding was expressed by the president of France, Emmanuel Macron during an interview with the Atlantic Council in January 2021. He argued, that ganging up against China by the West on shared values will provoke more hostility and eventually be rather counterproductive. He acknowledged that CAI lacks some important provisions, for example in terms of intellectual property and that Chinese technological expansion can be seen as a challenge, but overall he defended the agreement. Macron pointed out, that for the first time China agreed to engage with labor issues, that are part of the human rights package, and instead of being isolated, the country needs to be further engaged in the rules-based international order and the common fight against global challenges, like the climate change (Momtaz, 2021).

The satisfaction is not shared among all member states, however. Ivan Scalfarotto Undersecretary of State for Foreign Affairs and International Cooperation of Italy said that conclusion of the deal is a “positive signal” to China, while concerns over human rights are record high. Zbigniew Rau, the Minister of Foreign Affairs of Poland urged for more consultation and transparency over the negotiations, complaining about the rapid push and sole decision of Germany to finish the deal. Even in France, there is some skepticism, as two MEP from Macron’s ruling coalition hesitated if the deal is indeed beneficial to European companies and that is “especially weak” on the issue of shared values like human rights and forces labor (Le Corre, 2021).

Sudden progress of negotiation in late 2020 was also savaged by leaders of European foreign policy think tanks that on the 22nd of December issued an open letter first published on EUobserver. They criticize all aspects of the deal. According to them, from an economic perspective, provisions on market access and level playing field are only partial, and European companies will still face discrimination in public tenders and there is no much value of only a partial deal. Politically, it is a message of endorsement to Chinese actions in 2020, when Beijing smashed protesters in Hong Kong, was proven to run forced-labor camps in Xinjiang, clashed military in India, pressures Taiwan and have an ongoing diplomatic conflict with Australia, the EU ally. Thus the EU sends a disappointing message to the world about its commitment to European values. Promises made by China in the deal are considered to be vague and not likely to materialize. The EU plays also the same card, which the USA under the Trump administration did around the Phase One Deal, undermining transatlantic bonds before promising change of White House cabinet. Overall, the deal is also believed to be

rushed, while the stake is so substantial that it requires more public debate (A Group of EU-China experts, 2020).

A similar conclusion can be derived from the narrative around the deal. The European side tends to name the agreement as an equalizer, which is supposed to balance the EU-China investment relations and works as a catch-up. In this perspective, it is China that mostly makes provisions to the EU, but alone does not gain much. Advantages to Beijing are mostly political, as, after a year of numerous expressions of serious concerns over Chinese actions by the European leaders, Beijing manages to sign the deal anyway, creating a narrative, that nothing serious has actually happened. The material factor for China is that without CAI, the EU tired of the promise fatigue would eventually limit access to its own market and rebalance the disequilibrium from the other side, closing possibilities for Chinese entities.

The sudden rush could be defended when taken into account the event that has happened in Asia prior to the conclusion of CAI. The Agreement of 15 Asian nations over RCEP was a clear signal, the Europe in near future could lose its position as leader of the economic integration and it was time to act rapidly. Another event that might have caused the EU to a faster conclusion was the Fifth Plenum of CPC Central Committee that happened in late October 2020 and where the idea of double circulation was presented. CPC CC gathers 7 times between two National People's Congresses that happen every 5 years. The fifth meeting is focused on economic features, drafting the upcoming 5-years plan, and reviewing the previous one. It is one of the most important moments for analysis of economic trajectories and coming trends of China. Double circulation was presented as an idea, where China would no longer be reliant on export but will focus more on the development of the internal market, that with state support will be able to contribute to a bigger share of future economic growth of China. Some expert suggested, that official announcement of the party about more focus towards internal market from foreign ones and reassurance of deciding role of the state in allocation of resources, will make China less determined to conclude the deal that is supposed to limit privileges of Chinese SOEs and maintain Chinese access to external markets. Just before Xi Jinping said, that good relations with the EU are a top priority for China (Xinhua, 2020), as both blocks should enhance cooperation on global challenges while Trump had withdrawn the USA from Paris Agreement and WHO. With the new administration coming, new economic strategy, and already 7 years of exhausting negotiations, the conclusion of CAI could have been a turning point for the EU-China

relations, and determine if both sides will continue to find means for cooperation or rather increase a hostility.

Although there is not that much security concerns between the EU and China, CAI almost does not address them at all. It decreases forced technology transfer, but less than the issue of intellectual property protection. That is because investment treaties such as CAI protect investors from unwanted interference of the state, SOEs and other official bodies, but have almost no impact on violations of private companies and Chinese individuals. Although know-how is going to be better protected, effect of European work are still going to be exposed to intellectual theft (Cohen, 2021). Impact on European concerns about expanding Chinese sphere of influence in its neighborhood is obviously limited, but enhancement of Beijing to established institutions and rules may have a positive impact on smaller norm diffusion by China and discourage it from promotion of alternative organizations. Lastly, European countries will maintain a freedom when it comes to 5G infrastructure. Just before the conclusion of the deal, in mid-December Germany announced it would not exclude Huawei from its rollout, and in France the company committed to open 5G manufacturing plant worth 200 million EUR. It is unknown to what extent it was imposed because of the negotiations, but South China Morning Post reported, that during negotiations few days earlier, the Chinese side pushed for provisions limiting benefits of CAI for countries that excluded Huawei from their 5G network rollout (Birmingham, 2021). After all, there is no such record in the deal, but the EU managed to maintain sovereignty on this aspect leaving member states full options.

4.4 CAI and Cooperation Partnership

Apart from commitments on Paris Agreement, ILO Conventions and UN FCCC, some market access issues of the deal also correspond with sustainability promoted by the European Union. This part of the agreement refers mostly to services, however, there are three important extensions to the already mentioned manufacturing industry and renewable sources of energy – solar and wind. The first one includes New Electric Vehicles (NEV) with limited provincial restrictions remaining with the possibility of complete removal if the value crosses 1 billion USD (Stec & Chimits, 2021). Similar treatment was already granted in 2019 to Tesla for its Gigafactory in Shanghai, so although in this regard CAI is not a breakthrough initiative, such an approach would be now a standard, rather than just a single case. The role of China in this booming market that is expected to increase in value from 140 Billion USD in 2019 to 700 Billion in 2026 is undeniable (Facts & Factors, 2020). It plays a crucial role in the supply chain with 34% of the global production of Lithium, 16% of manganese,

and 67% of graphite, all essential for the industry. The country is also expected to continue to have the highest demand for electric vehicles and already lion share of global NEV's batteries is produced in China (CEMAC, 2018). As in 2040 even half of the passenger cars sold around the world can be electric and a decrease of cars with combustion engines is crucial for tackling climate change, European car manufacturers need to have better access to the most important supplies and the possibility to expand in the biggest market, taking advantage of economies of scale and proximity of customers.

In terms of wind and solar energy, similarly, as with other sectors, the EU firm will be granted a non-discriminatory commitment, however, what matters the most is reciprocity forms, enabling each member state to limit Chinese firm's involvement in the industry to the same level of market share that EU companies have in China. Chinese renewable manufacturers are attracted to green energy projects in Europe because of low operating risk and policy supporting energy shift (IEEFA, 2018). They offer lower prices than local companies, taking away a market share from entities that for a long time contributed to the field's R&D, are not able to enter the Chinese market, and even at home, they lose the ground to foreign competition. CAI will not only allow the European renewable sector to kick-off in China but also make competition within the EU fairer. It brings much more stability to the industry, which is supposed to be responsible for the EU's transition towards sustainable energy. With fewer obstacles to worry about at home and more opportunities abroad, they will be able to continue the development of renewable technology, consolidating the EU's position as the promoter of green energy and sustainability.

Apart from CAI, China has agreed upon two other important economic deals in 2020. First, the so-called Phase One Deal was signed in January with the USA, and second of Regional Comprehensive Economic Partnership with countries of West Pacific. Both of these deals were widely commented in the European Union. The former one was considered to be the first sign of progress in the trade war between Washington and Beijing. At that time it was believed to be just a first step in the right direction with the expectation for more agreements to be negotiated in the future, but the overall concession that the Chinese side granted for Americans make it to be considered as a US victory. It gave an additional push for the European Union to negotiate CAI and grant similar market access to the Chinese market for EU firms as negotiated by Trump's administration. While both the White House and president-elect at that time criticized Europe to conduct such a trade deal with China without any transatlantic consultation, it could be argued that it was the American side that breached

equilibrium in the first place making European entities lose comparative advantage over American in the Chinese market and to some extent CAI was meant to break the even and assure they are not left behind (Le Corre, 2021).

Phase One Deal was a breakthrough in lasting at that time already for two years trade war between the USA and China. However, it was rather a truce in an ongoing conflict, than a true peace agreement. For a promise of no further sanctions from the side of the USA, China obligated itself to buy more goods from the USA, particularly food, as it was the agriculture sector that suffered the most from the conflict and represented many swing states which were important in a view of American elections in November. China also facilitated market access in some industries like financial services, but to incomparable smaller scope than CAI, and did not even touch upon other issues such as subsidies, and sustainability, however put more attention to intellectual property protection (Bisio, et al., 2020). Phase One Deal, as the name suggests was just a first step that was supposed to open a path for more agreements in the future, eventually leading to economic provisions similar to those from CAI. Unfortunately for US-China relations, since the outbreak of the pandemic the deal lost its relevance as hostility between two global superpowers continued.

The second deal of RCEP is much more relevant. It aims to create the biggest free trade area on Earth, combining 30% of the world's population and almost 30% of the global GDP, by lifting trade barriers for 80% of goods (ASEAN, 2020). The implementation of the deal will be extended in a time of 20 years and still needs to be ratified by parliaments of all 15 countries that signed it in mid-November 2020⁵. There are numerous political disputes between them. In those that recently witnessed rising concern over China, like Australia or the Philippines some politicians already expressed skepticism, arguing that the deal is too much in Beijing's favor. Therefore, similarly to CAI, the political future of RCEP is uncertain.

Nevertheless, the Policy Department of External Relations in Directorate-General for External Policies of the European Parliament in a document issued in February 2021, acknowledged both threats and opportunities posed by the Asian economic integration. It admits that harmonization of requirements in such a vast region can make it easier for multinational companies to manage complicated supply chains and over a stable environment is beneficial for anyone interested in

⁵ The deal has been concluded by 10 ASEAN countries (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam) together with Australia, China, Japan, New Zealand, and South Korea.

business expansion to Asia. However, the facilitation of trade within the bloc may cause a drop in EU export to the region. The biggest concern is seen in the high-tech industry that is expected to benefit most from the deal. The production of that sector usually requires long and extensive multi-country supply chains of sophisticated products that are often produced in the EU. The document notes down that thanks to a trade diversion effect this production may shift from the EU to countries of RCEP (DGEPU, 2021, pp. 18-19).

Another important factor is that although the area covered by RCEP is impressive, the scope of the deal is rather limited. Market access to services is much more covered under CAI and there is a lot of room for further advocacy of the EU's approach to competition policy, intellectual property rights, investment protection, and subsidies. Furthermore, RCEP says nothing about labor or the environment. It creates a clear opportunity for the EU for norm diffusion and creation of standards in the region, by a further engagement with that countries. The EU's perspective on this regard not only has not been openly questioned by any of them but even already promoted via Free Trade Agreements with Japan, South Korea, Singapore, and Vietnam that are already in force and one with Australia is on its way. Negotiation for similar deals is being conducted with Indonesia and the Philippines, but since the German presidency signed a strategic partnership with ASEAN in December 2020, there is more advocacy for a regional FTA between the EU and the whole Southeast Asia block. Such initiative was once already proposed in 2007 but dropped two years later in favor of bilateral ties with ASEAN countries, but with the recent development of global economic relations and better environment for multilateralism, that is expected to be promoted by the Biden administration, the concept may seem reasonable again.

The role of the EU as a regional standard setter is not certain and can be challenged by China. European Parliament notes down, that China is becoming a "rule-maker" after for long being a "rule-taker" in trade-related aspects. Therefore, the EU's norm position in Asia depends on Chinese strategic engagement in the further development of RCEP (DGEPU, 2021). From this perspective, CAI should be judged not only from material aspects but also examine if it can counterweight norm diffusion by Beijing. Although not full, extra incorporation of China to established rules and EU standards enables Brussels to remain in control not only in the country but also gives it a better position to defend them in the whole region that becomes more and more important to the world's economy. CAI implementing issues not covered by RCEP can serve as an example for more deals of that type in the future.

One of the most important features of CAI regarding the future cooperation partnership are Chinese obligations to the established international institutions, such as ILO, UN, or WTO. The deal also creates its own mechanisms of cooperation, however all three means to assess level of institutionalization proposed by Robert Keohane are questionable. The commonality is partial as CAI is not touching upon all controversial issues that the EU would like to resolve. When it comes to Specify the situation looks better because transparency and specificity of touched issues is one of the flagship advantages of CAI, but on the other hand it does not specify any time framework for implementations of some points, which leaves an overall blurred situation. In the end, there is a limited amount of Autonomy, as the exact future of dispute settlements is yet unknown and they are likely to be based on state-to-state mechanisms. Nevertheless, CAI is a step in the right direction and overall enhance multilateralism. Provision forbidding backsliding on commitments makes it easier to continue further negotiations in the future. Thanks to the deal China is getting closer to a rule-based trade environment, although the journey is yet to be done. An additional advantage is the facilitation of people-to-people exchange, which always works in favor of liberalism. For establishment purposes, business visitors will be allowed to stay up to 90 days in a twelve-month period, and intra-corporate specialists transferees will have an option to live in China for up to 3 years (European Commission, 2021).. Progress for a country with complicated and specific visa requirements

4.5 CAI and Strategic Autonomy

Conclusion of the deal with China just a month before a new administration has been sworn in Washington is often commented to be a perfect example of Strategic Autonomy that the EU aims to build. It was a clear signal to the USA, that the EU does not want to have its vital interest to be dependent on the electoral cycle on the other side of the Atlantic Ocean. Although Biden has on many occasions put an emphasis on Europe as the most important group of allies to Washington, an administration that openly opposed multilateralism like Trump is seen in Brussels not as an accident, but a trend that is going to stay in the USA. A similar narrative is possible to come back to the White House in the next decade, so the EU should not follow the USA on every occasion. Especially, that the perspective on the US-China rivalry remains similar despite a change of president. What could have changed is the American approach to the matter or argumentation on taken a decision, but taking China as the most serious security concern is likely to stay, as well as record-high negative attitude towards China among American society, which makes it hard for decision-makers to go soft. This has been already visible during the first meeting between administrations of both countries in

Anchorage in March 2021. What was hoped to be a new beginning turned out to a diplomatic clash, where China openly opposed the US-led world order and Washington almost threatened the Chinese delegation if its bets against the USA. (Clark, 2021) This is not the way the EU wanted to deal with China, as CAI proves that it still prefers engagement rather the collision. When across the Atlantic there are two completely different ideas of how to deal with the rise of China, then there is no that much of a point to wait with a strategic decision to consolidate it with the new US administration. CAI most definitely is a blot on the landscape of the EU-USA relations, but should not be seen as a shift of alliances. Cultural, security, institutional and economic ties with the USA, altogether remain incomparable more important than with these with China. Both parties will continue to cooperate on the global challenges and are willing to focus on the future rather than the problematic past of previous years, which can be supported by the already undertaken initiative for a new transatlantic agenda for global change (European Commission, 2020). The EU by all means just wants to avoid finding itself stuck in the geopolitical struggle of two world's biggest superpowers.

EU stands for the multilateral international system, while Washington turns to unilateralism and China promotes multipolarity (Jørgensen & Wong, 2016). Brussels does not want to pick up any side and ally its self with Beijing to create another counter-weight for the USA or go along with the latter to isolate and contain the rise of the former. As expressed in Joseph Borell's Sinatra Doctrine, Europe needs to go its "own way", thinking about its interest in the first place. It needs to avoid finding itself in the missile of a geopolitical struggle between two world's superpowers. Although it acknowledged, that it is the United States that are more alike to European values and identity, the EU does not want to pick up any side. Such narrative determines the EU's action where it is not only realistic security dilemmas or liberal economic interest that shape the block's foreign policy but complex constructs that are derived from many different factors. Such an approach is also able to adjust and self-corrections, when circumstances change or move the balance of trichotomic strategy to one side.

Strategic Autonomy is also something very much encouraged by China itself. It is in the Chinese interest to have European Union making decisions on their mutual relationship alone, without the interference of the USA. Beijing often underlines both parties' commitment to multilateralism. Chinese envoy to European Union, Ambassador Zhang Ming mentioning strategic autonomy said in January 2021 during an event of Friends of Europe think-tank, that 'Hopefully such a spirit will continue to guide the EU's foreign policy and contribute to world stability and development (Cook, 2021). However, it does not see trichotomic approach alike. Chinese Foreign Ministry Spokeswoman

after first European sanctions since the Tiananmen Square Massacre have been imposed on several Chinese individuals said that the EU ‘cannot expect to, on the one hand, talk about cooperation and gain an advantage while on the other hand harming China's interests with sanctions’ (Lu, 2021). It is a clear warning sign, that China does not separate economic relations from politics and although it encourages Brussels to go ‘its own way’, it will not accept double standards, which makes the EU strategy even harder to conduct.

5. Conclusions

The sudden conclusion of the Comprehensive Agreement on Investment in late December 2020 could be seen as a surprise after quite a stormy year for EU-China relations. Daily news about China that were reaching headlines in Europe since the beginning of the coronavirus pandemic outbreak were far from being positive. Although mask diplomacy initially was met with welcome reaction in some countries, the low quality of imported products, the wolf warrior diplomacy, reports from Xinjiang, clashes with India, national security law in Hong Kong, the trade conflict with Australia, and controversial behavior of Chinese government at the beginning of the crisis with uncertainty over virus origins managed to outperform any signals that were more beneficial for Beijing's image in Europe.

It is then understandable, that ending such an intensive year, where it was broadly discussed what democratic countries should do about the growing assertiveness of China with a mutual willingness to strengthen economic ties was met with many controversies. Yet, the EU's idea about its relations with China vows for more multi-faced analysis, rather than black and white statements if the agreement is simply a good or bad idea. Economic and political interconnections between both parties are just too complex to deal with them straightforwardly.

The EU has so much interest in China touching upon so many both material and abstract areas that a more decisive approach would always undermine some of them. To keep the balance, a trichotomic approach was developed, hoping that the complex structure of the EU would enable it to conduct more effective policy in all three directions, with bodies dedicated to trade not interacting with issues related to values and global challenges. Overall, although the agreement does have its shortcomings and controversies, in the framework of ideas of Strategic Outlook from 2019 it is defensible. Having said that, it is a matter of another study in the future, if the deal is actually able to defend itself after coming to force.

To be able to examine that, it will first need to be ratified by the European Parliament and that is uncertain or even unlikely. Currently, there are many forces that can lead to an abolishment of the deal or freezing it for years to come. First of all, the Biden administration will try to build up a coalition of democratic countries to contain the autocratic rise of China, and US diplomats will lobby

against CAI or for a more multilateral deal within WTO instead. The agreement could become a matter of dispute and political leverage, used as a tool to give upon to obtain something else. Although the EU wants to go ‘its own way’, ties with Washington are still so close and with a proper US policy, it will be hard to ignore it.

Secondly, the European Parliament traditionally is an EU institution that cares most about values and human rights and it is expected to form a majority, demanding European Commission to negotiate more provisions in this regard, which would further delay the process. Although the negotiations are not yet finished with continuous efforts to agree upon some investment protection regulation, new issues that can be possibly requested would make the whole process lose its momentum and both parties could find themselves in another deadlock.

Thirdly, there is a growing skepticism on China among European nations which together with anti-globalization populism in some countries might make some leaders less determined to argue for a huge deal with economically powerful China, while from people’s perspective there are so many problems to deal with within Europe in the first place. Central European Institute of Asian Studies survey in 11 EU countries, shows that in the age of Covid-19 public opinion on China is record-low and the report follows other similar studies from the previous year proving that skepticism towards Beijing is on the rise (CEIAS, 2021). Moreover, more social movements on human rights issues might pressure the politicians to stand tougher on China. The same applies to Corporate Social Responsibility, like the case of Swedish H&M resigning from cotton produced in China (euronews, 2021). Such a decision may scuttle further negotiations and provoke more hostility between Brussels and Beijing. Additionally, MEPs are directly elected by the EU citizens. Sliding public opinion on China may have an impact on their final decisions over CAI.

Fourthly, China is likely to continue its assertive policy, provoking more reaction from the European Union. It is hard to believe that after such an intensive year Beijing will try to avoid any moves that could make the EU change its mind. More people will be arrested in Hong Kong, the Chinese army will continue to cause international concerns on the South China Sea, like recent development on the Whitson reef. Also, a more serious event may take place that will vow for a decisive reaction of the Western democracies. Especially with growing nationalism in China and public movements to stop buying products of Western brands may accelerate this assertive strategy. After tit-for-tat sanctions in March, European Parliament canceled a meeting reviewing CAI (Global Times, 2021). More hostility will further delay its ratification and increase the risk of it being shelved.

If CAI will never be ratified, its economic and engaging impact will never materialize, leaving EU businesses in China with unfair conditions and political consequences of the deal, that to some extent are already satisfying to Beijing. Conclusion of the agreement after a year of controversial policies was already done. CAI on its principles has already kept the EU market open for Chinese investments, as with hopes for CAI coming into force, Brussels is not thinking about restricting it. With this narrative, China loses less from a drop of the deal than the EU. Its gains are mostly political, undermining transatlantic bonds and getting approbate of the EU along with constant criticism from the USA. It also gives it more time to benefit from uneven economic relations.

The EU finds itself in a tricky position when shelving the deal would undermine its Strategic Autonomy and sophisticated approach towards China. Although if it is ratified, the EU will need to show that it still is going to pressure China on different fields. Failure to be effective on that matter would also erode its relevance. In its best interest is now to convey its citizens and business, that CAI is indeed beneficial for them and it does manage to keep its interest, global position, and values separately, satisfying all its needs at the same time without neglecting none of them.

Chinese people used to say that when someone is indecisive, stands on two boats. Not fully committed to none of them, it is possible to sustain balance, but very tricky. EU policy towards China could be easily compared to the popular phrase (Li, 2021). It requires a lot of skill and steadiness in order not to go overboard. Especially when waves are shaky. From the very beginning when Strategic Outlook was published in 2019 it was sure, that the trichotomic approach to China will be hard to maintain and conduct, with multi-faced policies seeming to contradict each other. CAI is the first example of this strategy to come into practice. Its timing proves the EU's determination for the cause and willingness to make essential decisions within Europe. However, the future of the deal and the ability to keep paying equal attention to all three vectors of EU-China relations may determine if the EU will be able to continue with "its own way".

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