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Master's Thesis

# **“European Countries Choosing Chinese Investment Instruments: An Analysis”**

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## *Abstract*

This Masters' thesis attempts to identify why European countries choose Chinese investment instruments despite their participation in the European single market and access to European Union (EU) resources and technical assistance. Since their inception in 2013, EU members as well as EU partner states in Europe have been divided on their approach towards joining the Chinese investment instruments- namely Belt and Road Initiative (BRI) and Asian Infrastructure Investment Bank (AIIB) - due to the absence of a common EU policy in this regard. This division contributes to weakening of the coherent and unitary actor position of the EU as a major economic power in the global arena whereas China increases its politico-economic influence. Thus, this research pursues to investigate the impact of particular institutional aspects which may have caused the change in EU member and EU partner states' preference policies to approach the Chinese investment schemes in different manners.

In order to attain this goal, this thesis resorts to mixed method nested research design based on two theoretical perspectives, rational choice institutionalism and sociological institutionalism, pointing to diverse institutional features that plausibly could have shaped and changed the direction of the EU member and EU partner states' policies. The nested design at first conducts quantitative comparative analysis of EU members along with EU partner states in Europe and combines the outcomes with those from comparative case studies based on the preferences towards Chinese investment instruments of five European countries that faced economic crisis.

The findings indicate that in the challenging reality of apparent internal division, EU members along with EU partner countries in Europe with smaller economy or financial hardship are attracted to BRI to propel their infrastructure and financial sector with hopes to acquire external funds in addition to EU resources. On the other hand, European countries with larger economic strength prefer AIIB membership subscription to further their investment opportunities in Asia. Both of these preferences are highly influenced by the bilateral relations between China and a particular European country.

### ***Key words:***

Actorness, BRI, Coherence, CFSP, EU, Member states' responses, Levels of engagement, Policy, Policy change, Institutions, Structures.

***Word count: 19990*** (without Cover page, Bibliography, Annex and Ethical Considerations)

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## *List of Abbreviations*

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment bank
ASEM	Asia-Europe Meeting
ASEAN	Association of South East Asian Nations
BRI	Belt and Road Initiative (of China)
CESEE	Central, Eastern Europe and South-Eastern Europe
CFSP	Common Foreign and Security Policy
DG	Directorate-General (of the European Commission)
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECB	European Central Bank
EEAS	European External Action Service
EFSF	European Financial Stability Facility
EFSD	European Fund for Strategic Investment
EIB	European Investment Bank
ESM	European Stability Mechanism
EIP	European External Investment Plan
EP	European Parliament
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNI	Gross National Income
HR/VP	High Representative of the Union for Foreign Affairs and Security Policy / Vice-President of the Commission
MFF	Multiannual Financial Framework
MoU	Memorandum of Understanding
OBOR	One Belt, One Road
PPP	Purchasing-Power-Parity
SMEs	Small and Medium-sized Enterprises
SOE	State-Owned Enterprise
TEU	Treaty on European Union
The Council	The Council of the European Union
TFEU	Treaty on the Functioning of the European Union
TTIP	Transatlantic Trade and Investment Partnership
QMV	Qualified Majority Vote
USA	United States of America
WTO	World Trade Organisation

## *Chapter 01: Introduction*

### *1.1 Preface*

This Master's thesis targets to explore the aspects on why European countries choose to respond to Chinese investment schemes differently. In other words, this study examines the impact of institutional attributes which may have caused the change in differing preferences in European Union (EU) members and EU partner states' policies to approach Chinese investment instruments.

The division among EU members and EU partner countries in Europe is no longer a covert issue over their engagement with the Chinese investment instruments (Chen, 2018: 297). Since the inception of the Chinese Belt and Road Initiative (BRI) along with the establishment of the Asian Infrastructure Investment Bank (AIIB) by the same political leadership in 2013, the EU has taken a long pause to formulate an official response that sets common binding rules<sup>1</sup> for all of its members and partners in Europe. In the absence of an official EU policy, a significant number of EU members and EU partner countries in Europe have signed Memorandum of Understanding (MoU) with China to attract investments in infrastructure and financial sectors without any proper consultation with the main EU institutions. There are some areas of investment mentioned in those MoUs where only the EU, as the supreme law-making body in common market and commercial policies can legislate (*Precedence of European Law, EUR-Lex*). This has rendered the coherent and unified perception of the EU as a global actor to be weakened (Bretherton & Vogler, 2013: 376). Hence, this thesis will analyse the institutional causal relationship factors influencing EU members and EU partner states' differing engagement with the Chinese investment mechanisms.

For a comprehensive understanding for use in the thesis, the term EU partner country refers to non-EU countries that are in accession process, candidate and potential candidate countries for EU membership and other European countries in Central, Eastern and South-eastern Europe (CESEE) that participate in the European Single Market through contractual relations such as the EFTA and are eligible for EU technical and financial assistance. In addition, the terms-

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<sup>1</sup> ECJ Case 06/64, *Costa versus Enel*, 15 July 1964.

“Chinese Investment Instruments”, “Chinese Investment Schemes” and “Chinese Investment Mechanisms” are used alternatively bearing the same meaning.

## 1.2 *Problematization, Research Question and Relevance of the Study*

Asia is one of the largest trade partners of the EU. In 2019, about 40 % of EU imports were from Asian countries whereas the second largest export destinations for EU were to Asia (*European Commission Website*). EU promotes regional cooperation with Asia through various bilateral and multilateral platforms such as the EU-China Connectivity Platform, ASEM (Asia-Europe Meeting) etc. Rapid growth of regional economic activities, trade, and flow of foreign direct investment has put cross-border infrastructure development in Asia in a vital position (Kuroda et al, 2006: 20-22). Various cross-border infrastructure initiatives are specifically designed to expedite cross-border trade through reduction in overall transport and logistics costs. Benefits derived as the consequence of better connectivity through cross-border infrastructure such as reducing logistics costs, trade expansion, economic growth, and poverty reduction are achieved in the long term, whereas costs need to be encountered immediately (ibid).

Asian Development Bank (ADB) estimates that Asia -Pacific region will require over 1.5 trillion USD per year for their infrastructure needs (Table 01). It is echoed in the Joint Communication of the EU for the Euro-Asian Connectivity Strategy that only the Asian region will require 1.3 trillion Euro a year for infrastructure needs. Another estimate is that Asia’s infrastructure needs will reach \$22.6 trillion by 2030 (Shepard, 2017).

*Table 01: Estimated Infrastructure Needs in Asia (Total in Billion USD)*

	Baseline Total	% of GDP	Climate Adjusted	% of GDP
Central Asia	33	6.8	38	7.8
East Asia	919	4.5	1,071	5.2
South Asia	365	7.6	423	8.8
Southeast Asia	184	5.0	210	5.7
The Pacific	2.8	8.2	3.1	9.1
Asia and the Pacific	1,503	5.1	1,744	5.9

Source: ADB (2016)

Utilizing public money alone for financing all infrastructure investment lead to the potential threat of huge budget deficits with concerns for fiscal sustainability. Private sector financing may be a potential source of infrastructure funding. But such long-term and expensive

infrastructure development projects are often deemed too costly and risky for the private sector or any single government to take on (Kuroda et al, 2006: 20-22).

The maximum output from multilateral development banks (MDBs) that are extremely active in Asia such as the World Bank (WB), ADB and European Bank for Reconstruction and Development (EBRD) falls far short of this demand limited to only \$100 billion. (ADB Working Paper 1067, 2020: 2). Given this scenario, China led investment instruments such as the BRI and the AIIB enters the global marketplace in 2013. Though they are often considered by many scholars as two components of the same Chinese policy goal, they are separate entities (Bustillo & Andoni, 2018: 5). The Chinese principle of unconditional investment through the BRI and the AIIB makes them appealing for countries in Asia and Europe alike (Gaens, 2018).

The EU is perceived as a community of European countries for security and prosperity, unity and effectiveness combinedly performing as a major economic soft power. Key features of the EU as a major economic power lie in its regulated internal single market of nearly 500 million people. It has the second strongest currency of the world. The 27 EU Member States together command more than one eighth of the votes in the United Nations (UN) General Assembly, some of them are founding members of the global organization. The EU is the UN's largest financial contributor to its regular budget, the funding of official development assistance and peace-keeping missions. From the European perception, the BRI has huge prospective if it adheres to the EU market rules as well as multilateralism and thereby supplements concerned EU policies and projects. Yet, several politicians, scientists and scholars see it as competing activities which pose an ultimate challenge to the shared interest of Europe in maintaining the rules-based international order (Żukrowska, 2017). Where the EU promotes long term sustainable development in a multilateral world (as cited in the *EU Global Strategy*) through domestic change with strict conditions of government reform, economic reform and other issues such as human rights and sustainable development surrounding positive transformation (as cited in the *Common Foreign and Security Policy, EUR-Lex*) in exchange of free market access in the EU single market (Börzel, 2011: 396), China offers unconditional non-intervention investment (Żukrowska, 2017). EU's position on the BRI is based on engagement with China rather than to isolate it (Brattberg & Soula, 2018).

Since the inception of BRI and AIIB, there is an apparent division among the EU members along with EU partner countries in Europe on their approach in absence of a common official binding EU policy. Foreign policy and defence lie at the heart of national sovereignty and EU



member states have defended their rights to take decisions in these policy areas as they see fit to protect their national interests (Zielonka 2013). Decision-making in the common foreign policy of the EU has remained a heavily intergovernmental process with no good reputation compared to communitarized EU policy areas (Falkner, 2011, Chapter10). It is argued that processes of socialization have been developed as a result of recurring interactions between the foreign policymakers (ibid: p.169). Based on this, the Common Foreign and Security Policy (CFSP) decision-making is currently consensus-oriented (Qualified Majority Voting) in a normative environment (Corduneanu, 2014: 57).

It has been observed that EU member states are individually exercising their shared competences (*Distribution of Competences, EUR-Lex*) of State level foreign policy decision making under the cover of freedom of market for attracting investments in areas of transport, infrastructure and development cooperation (as described in Article 4, *Treaty on the Functioning of the EU- TFEU*) in regard to joining the BRI by signing non-binding MoUs. But these MoUs include clauses in areas of trade and investment which in some way bypasses the exclusive competences of the EU to legislate in these areas (as described in Article 3, *TFEU*) and therefore, challenges the coherent unitary global actorness of the EU. The European Commission (EC) even complained that EU member states have subscribed AIIB membership share without coordinating their decisions with main EU institutions hence not ensuring the representation of the EU in the multilateral platform (Bustillo & Andoni, 2018) as per Article 19 of the *Treaty of the European Union (TEU)*. The overarching research question is,

***“What institutional factors drive the European Countries towards differing preferences for Chinese Investment Instruments?”***

In order to attain the goal of the research question above, empirical investigation is required to address the following issues.

First of all, we need to identify that all the EU members and EU partner states have responded to Chinese investment schemes or not. This will establish the extent of responses and the base for comparison among these European countries.

Second, we have to explore that the how do these responses differ. That is, which European countries have chosen to join BRI and which did not. At the same time, patterns for subscription

of AIIB membership also need to be considered. Understanding such trends will enable us to segregate European countries between clusters and compare them according to their socio-economic parameters such as the size of their economy, income level, flow of direct investment and commodity trade based on publicly available statistical data.

Finally, analysis of the issues mentioned above will lead us to examining their respective responses through the scope of different institutional aspects derived from rational choice institutionalism and sociological institutionalism such as interest maximization, constraints to interest maximization and external influence in the form of interactions based on findings from literary works of other scholars.

Therefore, exploring these issues are considered to have fundamental traits in relation to the research question. Gradual outcomes from examining each of these issues will lead to the ultimate objective of this study- finding the institutional causes influencing the choices of the European states towards Chinese investment.

As for the relevance of this study, we may refer to Jenkins-Smith et al. (2018: 156) who points that comparative studies such as this one obviously add value in data acquisition and analysis as well as gain important new insights regarding the role of political institutions and cultures in shaping policy process. Thus, this research will develop systematic comparisons of preferential policies across selected EU members and EU partner countries and thereby contribute to policy process study to fill the existing knowledge gap.

### *1.3 Structure of the Study*

In order to gradually develop the answer to my research question in an organized and plausible style, I have structured this thesis into seven chapters each incorporating its own set of subsections. The first chapter has already introduced the research problem and the research question to be answered with the thesis. Chapter two presents the review of the research field based on existing literature in this regard. The third chapter vividly discusses the choice of selected theories to base the theoretical consideration of this thesis and deducing hypotheses to operationalize the chosen theories. The fourth chapter introduces the nested design of mixed methods strategy combining both quantitative and qualitative evidence based on comparative analysis. The fifth chapter incorporates the findings from both the quantitative analysis and qualitative comparative case study. The sixth chapter examines the findings from quantitative

analysis and qualitative study against the hypotheses deduced from the theoretical framework and thereby summarizes to provide the answer to the research question. This chapter also includes the implications of the findings derived from the analysis. The seventh and final chapter includes the general conclusion along with the recommendations on my part.

#### *1.4 Shortcomings and Generalization of Results*

First of all, unlike traditional foreign policy analysis to understand external policy traits, I have necessarily delineated the study only on the institutional socio-economic perspectives of EU member and EU partner countries as mentioned earlier.

Second, this thesis has been developed on the theoretical interest of two particular institutional theories (rational choice institutionalism and sociological institutionalism) which define what an institution is constituted of. The concept of “institution” can provide a variety of meanings according to different theoretical perspective. Therefore, I have decided to limit the meaning of institution purposively to approach the theoretical variables of interest based on the two given theories rather than providing a full account of meaning for institution as per other different theoretical aspects.

The relations between individual European countries and the USA along with Russia are deemed as critical strategic factors in any such study. In theory, the strategic relations that exist between any given European country, the USA, Russia and China can also be taken into consideration while conducting any form of foreign policy analysis. But, in the context of this thesis, involving this factor would lead the study to approach different research question(s) related to security and geo-political as well as geo-strategic factors than that posed in this thesis. As a result, the scope of the analysis of this study is limited to only those factors that are of interest to attain the given research question through the developed hypotheses.

Finally, the outcomes of this thesis do not constitute a general rule regarding policy process of the European countries. However, the findings of this of research could be valid for several other foreign policy aspects regarding external influence.

## *Chapter 02: Review of the Research Field*

At the first section of this chapter, I have provided a brief overview of the Chinese Belt and Road Initiative (BRI) and the Asian Infrastructure Investment Bank (AIIB) followed by the EU response towards the BRI. After that, a brief introduction of the Euro-Asian connectivity Strategy of the EU has been incorporated to understand the recent development. All of the discussions in this chapter are basically respective reviews from existing literature.

### *2.1. The Chinese Belt and Road Initiative*

The Belt and Road Initiative (BRI) is defined as an open-ended Chinese attempt for enhancing international infrastructural and industrial development through improved connectivity and cooperation (Barisitz & Radzyne, 2018). This initiative was announced in late 2013 by the Chinese President Xi Jin Ping. It includes construction of land-based transport connections between Asia and Europe through Southeast Asia, Central Asia and the Middle East along with maritime routes between China and all continents with which it may trade with the aim of boosting the Eurasian cooperation (Dunmore et al, 2019: 15).

This project aims to meet an enormous terrestrial and maritime infrastructure financing gap and sets no prior restriction on particular actors, regions, methods or norms. As Barisitz & Radzyne (2018) describes, the “[..] *initiative has no equivalent that rivals its scale, ambition and commitment*”. There is no predefined principal strategy or development plan with precise budget as to which projects will fall under the scope of the BRI. Rather, the initiative seems to evolve in response to individual countries’ engagement with China. Various scholars identify this initiative to be a branding exercise, because of multiple projects labelled as BRI projects as they simply fall within its geographical scope (Dunmore et al, 2019: 16).

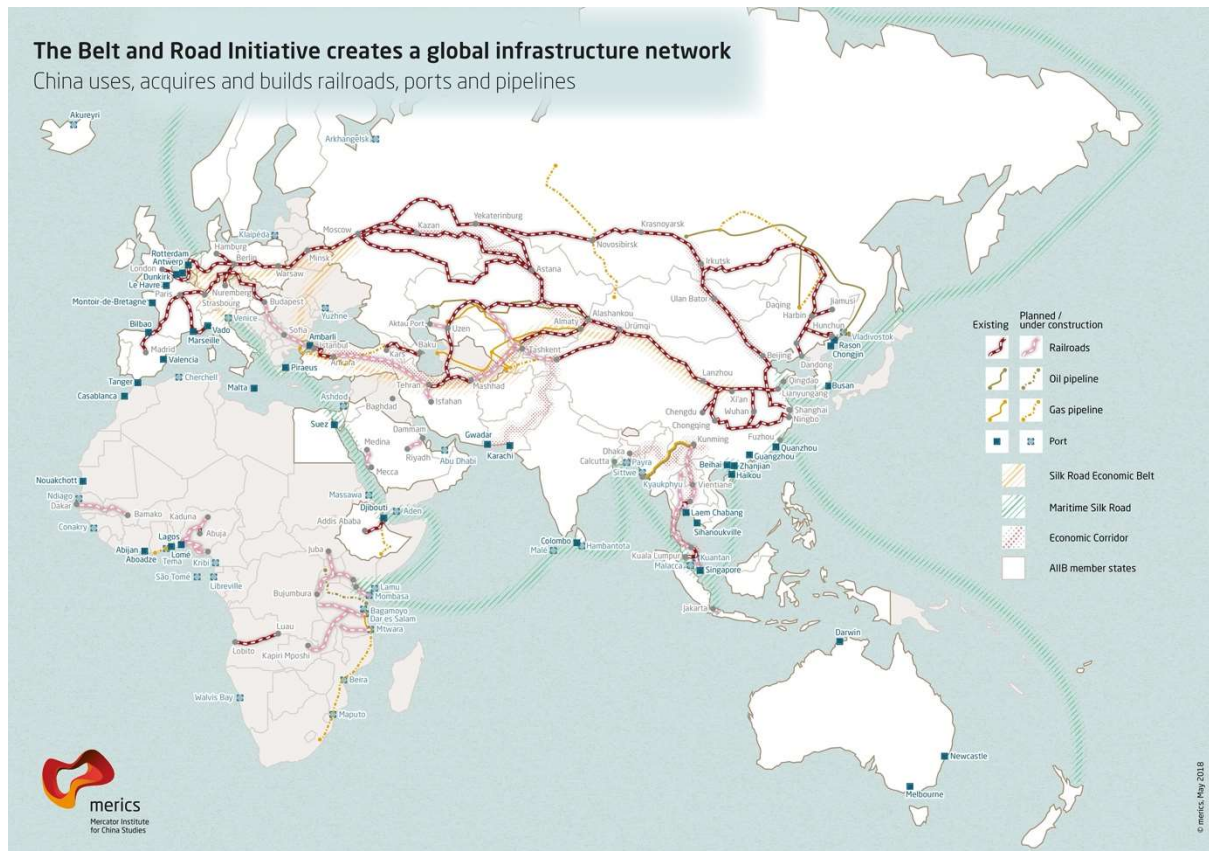
Currently 138 countries of the world have signed MoUs to participate in the BRI (as per *The Green Belt and Road Initiative Centre* website). This initiative is expected to create a wider market access for the whole Eurasian region which will eventually result in the following outcomes (Dunmore et al, 2019: 17).

- (a) Emergence of new products in new production sites in new locations.
- (b) Continuous growth of global and regional Eurasian trade volume.
- (c) Reduction of transport cost through increasing operational efficiencies and larger

transport vessels.

- (d) Reduction in transit time due to higher frequencies across new and existing direct routes.

Figure 01: The Planned Global Network of BRI



Source: Mercator Institute for China Studies, 2020

Though the BRI encompasses a potentially huge opportunity for infrastructure development for countries that are not capable of doing so by themselves due to smaller economic capability, BRI projects are often accused of weakening and even bypassing environmental, social, or governance standards of certain competition, tendering and procurement procedures as well as national safety and labour laws. As in most case the Chinese investors tend not to utilize local resources, direct spill overs of these investments to the local economies become limited. At the same time, large scale BRI loan repayment in short term puts the already vulnerable economy of such countries to potentially unmanageable debt levels and thereby leading to fiscal instability. The acquisition of the Sri Lankan Hambantota Port by the Chinese authority to realize loan repayment is such example (Brattberg & Soula, 2018).

Such accusations on China while implementing BRI projects were as well reflected in the EC Report entitled “EU-China – A strategic outlook.” The report points to the lack of reciprocal market access for EU companies in China, selective market openings as well as providing heavy subsidies to both state-owned and private sector companies with Chinese origin. As a result, the Commission report put focus to achieve a more balanced relationship with China based on fair competition and market access. At the same time, it calls for emphasizing on persuading China to compel to reforms (within the framework of the WTO) on industrial subsidies and policies (Zeneli, 2019).

## 2.2 *Asian Infrastructure Investment Bank (AIIB)*

The Asian Infrastructure Investment Bank (AIIB) has been created by the same Chinese leadership in 2013 to facilitate the same objective of the BRI. That is, infrastructure investment in Asia and thereby connecting other regions of Africa and Europe for further market expansion. AIIB is a multilateral development bank (MDB) that adheres to internationally agreed upon rules and norms as like the Japan led ADB (Bustillo & Andoni, 2018: 5). AIIB at present has 102 members with total share amounting to 96,743.9 million USD. Among the members, 26 are European countries. Chinese share in this bank amounts to 29,780.4 million USD with 26.64% voting power (*AIIB Website*). 26 European countries have subscribed the share of the AIIB amounting to over 21,102.2 million USD with nearly 22% voting power (*ibid*). As the share of Croatia cannot be found on the website, the total European share with voting power will be higher than the collected figure. The list of European countries including EU members and EU partner states are placed on Table 10 in *Annex V*. The establishment of this MDB subscribing its membership by European countries as well as other US allies was highly opposed by the USA and Japan at first (Bustillo & Andoni, 2018). Joining of the European countries along with the UK in the AIIB due to its multilateral rules-based character has established its position in the global arena (*ibid*).

## 2.3 *EU Policy Response to BRI*

China has comprehensive strategic partnership with the EU (Li Q & Ye M, 2019) whereas the EU identifies China as its “*Systemic Rival*” (*EU-China- A Strategic Outlook, 2019*). As the EU is the biggest trading partner of China whereas the Asian giant is the EU’s second most important trading partner after the U.S.A. (Barisitz & Radzyne, 2018), the EU devised a

bilateral cooperation mechanism to accommodate the Chinese initiative in 2015 termed as the “EU- China Connectivity Platform”.

While formally devising the Platform, both the EU and China mutually agreed to accept the exploration of further cooperation in the area of transport as the main objective. The parties meet at the Platform with a view to further enhance collaborations between EU’s connectivity approach incorporating the TEN-T program and China’s BRI. The platform promotes ensuring “*greater transparency, reciprocity in market access and a level playing field for businesses in the area of transport infrastructure development*” (EU- China Connectivity Platform, EC Website). The platform conducts cooperation in the areas of:

- i. Sharing information, promoting seamless traffic flows and transport facilitation, and developing synergies between their relevant initiatives and projects.
- ii. Creating a favourable environment for sustainable and inter-operable cross-border infrastructure networks in countries and regions between the EU and China.
- iii. Exploring business and investment opportunities open to both China and the European side; and
- iv. Identifying co-operation opportunities between their respective policies, including the Trans-European Transport Networks (TEN-T) and BRI (ibid).

Before proceeding with further discussion on the EU-China Connectivity Platform, a very brief description of the TEN-T program of the EU is incorporated here. It is because the implementation of the TEN-T program in EU member and EU partner countries and connecting it with infrastructures in Asia is an integral part of the new EU Strategy described in the following section.

The EU’s common connectivity approach is termed as the Trans European Transport Network (TEN-T). These are large scale infrastructure projects of transport, energy and telecommunications supporting the cohesion goals of the EU by establishing and integration of interconnection and interoperability in networks. Legal basis and mandate for developing a trans-European transport network was first introduced in the Maastricht Treaty of 1992. TEN-T program exist in every EU member state and include all aspects of transport: road; rail; maritime; inland waterways; air; logistics; co-modality; and innovation. A maximum of 30% of the TEN-T program is allocated for cross border infrastructure development as per the TEN-T regulation. Priority projects of the TEN-T program are

termed as the core network corridors (Dunmore et al, 2019: 05). Figure 02 depicts the TEN-T core network corridors for surface transport.

*Figure 02: Trans-European Transport Network (Core Network Corridors)*



Source: European Commission Trans-European Transport Network (2018)

TEN-T program is a well-organized physical (in the sense of implementation) infrastructure development mechanism with clearly defined rationale, budget and evaluation framework unlike the BRI. The prime funding source (i.e. 85%) for TEN-T program is the multiannual financial program (MFF) with co-financing from beneficiary country as well as organized public and private funds such as the World Bank, EBRD, EIB and EFSI (ibid).

It has been observed that though Chinese investments in Europe are mostly concentrated in Western Europe, a significant share of it are now increasingly being invested in infrastructure development for Central, Eastern and South-eastern European (CESEE) countries (Gaen, 2018). The projects submitted within 2016-2019 period for consideration of investment cooperation in the EU-China Connectivity Platform reveals that 27 out of 29 projects on the European part are located in the CESEE countries. Table 02 below depicts the projects submitted for cooperation consideration in EU countries.



Table 02: Proposed Projects in EU Countries

#	Project name	Location
1	Hemus motorway project & Black Sea motorway project	Bulgaria
2	Restoration of the Design Parameters of Ruse – Varna Railway Line Project	Bulgaria
3	Modernization Of Sofia – Pernik – Radomir Railway Line” Project	Bulgaria
4	Modernization Of The Karnobat – Sindel Railway Line	Bulgaria
5	Rijeka-Zagreb-Budapest railway	Croatia
6	Improving the accessibility of Rijeka port in the context of the Croatian railway network: • Karlovac – Oštarije section • Oštarije – Škrljevo section • Škrljevo – Rijeka – Jurdani section	Croatia
7	V0 Rail Cargo Line Bypassing Budapest	Hungary
8	Hungary-Serbia railway	Hungary
9	Genoa Port breakwater project	Italy
10	Trieste Integrated Rail Hub	Italy
11	North Sea Baltic Corridor, comprising of the following sub-projects: • Logistics and industrial center project at the Freeport of Riga • New terminal “Northern port” project at the Freeport of Ventspils • Rail Baltica Intermodal Logistics Centre freight village • Logistics centre for e-commerce business in the Riga International Airport	Latvia
12	Adjusting Odra River Waterway (E30) to the international waterway standards	Poland
13	Construction of Silesian Channel (Silesia Waterway Project)	Poland
14	Construction of middle and lower Vistula cascade ( waterways E40 and E70)	Poland
15	Warszawa- Brzesc connection – extending E-4o waterway	Poland
16	Connections Timisoara – Romanian/Serbian border: • Timisoara – Moravita motorway • Timisoara – Stamura Moravita railway line	Romania
17	Development of the Košice Intermodal terminal (Košice Joint Transport Terminal Construction Project)	Slovakia
18	Development of the Leopoldov Intermodal Terminal	Slovakia
19	Development of the Bratislava Trimodal Terminal	Slovakia
20	Railroad Project from Koper to Divaca	Slovenia

(Source: EU-China Connectivity Platform Website)

On the other hand, Table 03 shows the projects submitted for cooperation consideration in EU partner countries.

Table 03: Proposed Projects in EU Partner Countries

#	Project name	Location
1	Adriatic Ionian Motorway	Albania
2	North - South road corridor	Armenia
3	East – West (Trans-Caspian International Transport Route - TITR)	Azerbaijan
4	Corridor 5c Highway Project in Bosnia and Herzegovina	Bosnia and Herzegovina
5	Anaklia Deep Sea Port	Georgia
6	Tbilisi and Kutaisi Logistics Centers	Georgia
7	Mateševo-Andrijevica section of the Bar-Boljare highway (BBH)	Montenegro
8	Serbia railway network	Serbia
9	Ferry Railway Complex in Chornomorsk port	Ukraine

(Source: EU-China Connectivity Platform Website)

It is worth noting that the CESEE countries whose projects are forwarded for consideration are also members of the “17+1” Platform except Italy, Georgia and Ukraine. The “17+1” Platform is a cooperation format between China and sixteen European (EU and non-EU) countries. The list of participating countries in this Platform can be found on Table 12 in *Annex VII*. The 03 non-member countries of the “17+1” Platform are participant in the BRI. As a result, it seems that one way or another, this connectivity platform is satisfying the needs of China and its allies in the EU and not of other countries that are not in any form of cooperation partnership with China.

BRI’s broad geographical scope points to a certain aspect that its impact will not only be in increasing of trade volume but also a huge increase in the maritime, air and land transport across Eurasia and beyond. A study entitled “The New Silk Route- Opportunities and Challenges for the EU Transport” appointed by the EU Parliament in 2018 discloses a particular concern that the potential interaction of the BRI with the TEN-T networks might lead to scale down particular running TEN-T projects because of potential duplication, or to be expanded to deal with BRI-related traffic (Dunmore et al, 2019: 10). The likely scale of effects on the ports, airports and railways in EU as per that study are narrated in Table 04.

*Table 04: Potential Impacts on EU Ports, Airports and Railways*

Infrastructure	Location	Potential impact	Net change
Ports	Baltic and North Sea	Loss of up to 15% of China-related traffic.	Down
Airports and onward “air freight” by road	EU-wide	Minor loss of traffic, but undetectable against background growth.	Down
Ports	Mediterranean and Atlantic	No material change, but if sea loses the most urgent traffic, this may favor northern Mediterranean ports over “first landfall” ports such as Piraeus.	Redistributed
Railways	Via Black Sea and Turkey	Potential gain of some traffic, but with less time saving than via Belarus.	Up
Railways	Via Belarus	Potential main route for mid-value goods to northern and landlocked Europe, including Baltic States and Finland (via Rail Baltica).  Onward travel to Sweden and Norway (via Baltic) and Great Britain and Ireland (via North Sea) offsets some loss of direct sea traffic.	Up

(Source: Dunmore et al, 2019: 10)

## 2.4 *The Euro-Asian Connectivity Strategy of the EU*

The Euro-Asian Connectivity Strategy was officially published in the form of a Joint Communication from the European External Action Service (EEAS) to the European Parliament and the Council. The Strategy officially entitled as the “*Connecting Europe and Asia- Building Blocks for An EU Strategy*”, is considered to be the first step to respond formally to Chinese BRI (Gaens B, 2018). The strategy aims to devise a formal facilitation mechanism considering Europe and Asia as a whole to coordinate sustainable, comprehensive and rules-based connectivity. The Strategy was announced by the High representative of the EU and Vice President of the European Commission, Federica Mogherini on 19 September 2018.

The Strategy at present is the part of a larger body of (proposed) secondary EU law (Broer, 2018) in order to further preserve EU interests in an increasingly competitive geopolitical environment. Thus, it is now considered as a non-binding legislation which, after the entry into force of this Strategy as an *Act*, will be binding for all EU members as well as EU partners (ibid).

In the Joint Communication form, the Strategy is not much detailed. Only the principles of the strategy are described with short note of intention as well as target partners. A few other documents were published at the same time discussing the strategy in a little more narrative way. These include an EC Press Release entitled “*EU steps up its strategy for connecting Europe and Asia*” and an EC Fact Sheet entitled “*Explaining the European Union's approach to connecting Europe and Asia*”. Main features of the strategy are briefly discussed in the following paragraphs.

**First**, the strategy recognizes “connectivity” as engagement on part of the EU with other actors as defined in the EU’s Global Strategy (*EC Fact Sheet, 2018*). This policy paper is required to be read together with the Multi-annual Financial Framework of the EU for the period of 2021-2027 as proposed by the EC.

**Second**, the EU’s connectivity strategy emphasizes three core ideas defining them to be the ‘European way’ (*EEAS Joint Communication, 2018*). These are-

- i. Connectivity has to be economically, fiscally, environmentally and socially sustainable in the long term.

- ii. It needs to be comprehensive, covering transport links, digital networks, energy flows, and people-to-people networks.
- iii. Finally, connectivity needs to be international rules-based, open and transparent.

The EC fact Sheet describes this approach to be directly beneficial to people for the destination countries as well as countries of transit.

**Third**, recognizing the diversity in countries in terms of economic model and level of development, the strategy emphasizes on the adoption of a principled approach to connectivity with concrete action based on three strands as following (*EC Press Release, 2018*).

- i. Creating transport links, energy and digital networks and human connections.
- ii. Offering connectivity partnerships to countries in Asia and organisations.
- iii. Promoting sustainable finance through utilising diverse financial tools.

**Fourth**, the Strategy details out the connectivity building between Europe and Asia in the following areas with particular implementation goals (*EEAS Joint Communication, 2018*).

These are-

- i. To extend the TEN-T program of Europe to connect with transport infrastructures of Asia through road and rail communications.
- ii. To promote long-term decarbonisation of air transport.
- iii. To strengthen maritime security.
- iv. Persuasion of the '*Digital4Development Strategy*' of the EU in Asia for digital connectivity.
- v. Adoption of clean energy solution with a goal to establish an energy connectivity platform; and
- vi. Enhance exchange of students, researchers, innovators, artists and sports persons between Europe and Asia.

**Fifth**, the EU strategy aims to pursue strong bilateral partnership by promoting existing connectivity platform with regional leading countries in Asia such as China, Japan and India for example. Strengthening partnership at the regional level with regional organizations like the Association of South East Asian Nations (ASEAN) and the Asia- Europe Meeting (ASEM) has also been included in this goal. In case of global connectivity partnerships, the strategy

proposes engagement with international organisations such as the World Trade Organisation, and UN bodies to determine the legal frameworks to set international standards for concrete forms of connectivity (ibid).

**Sixth**, the Euro-Asian Connectivity Strategy declares that EU will work to combine financial sources from international financial institutions, MDBs' and the private sector to ensure sustainable domestic and international finance for connectivity. At the same time, EU will uphold ensuring transparency and level playing field for businesses. The strategy opines that a comprehensive approach to investment financing such as the European Fund for Strategic Investments as well as specific geographical investment facilities outside the EU combining with the funding for TEN-T program from the MFF will successfully leverage guarantee for investments in infrastructure and connectivity (*EC Press Release, 2018*).

**Finally**, the EU Strategy reveals the financial input would be up to 60 billion USD for the period of 2021- 2027 that can be flowed from the European External Action Budget to the connectivity program given that the budget has to be finally approved by the EU. In addition, to support European and Asian businesses particularly the SMEs, the Strategy envisions of establishing a Business Advisory Group for the Euro-Asian Connectivity.

It can be mentioned that the principles described in the Euro-Asian Connectivity Strategy echoes with those of EU-China Connectivity Platform. Interestingly, there is a discussion on the EC fact Sheet 2018 that if this strategy is directly in competition with China's BRI. The provided answer seems to have avoided the issue carefully. In response, China officially greets this strategy (Dongdong, 2018).

As the strategy was published back in 2018, there is a significant number of scholarly articles published on this policy. These scholarly papers can be broadly segregated in two categories- literature welcoming the EU Strategy and literature criticizing the EU Strategy. These two categories with their focus are briefly narrated in the following sections.

#### 2.4.1 Literature Welcoming the EU Strategy

Articles classified in this category mainly focus on how this EU Strategy is going to enhance synergies among existing connectivity programs of other actors in different regions of Asia.

As example, in his article “*The EU-Asia Connectivity Strategy and Its Impact on Asia-Europe relations*”, Gaens (2019) appreciates the EU effort to adapt with the increasing uncertainty of world politics as well as geo- economic competition. He emphasizes on utilizing the ASEM platform to further cooperation in other regional actors. The inclusion of the concept of applying “*the European way*” has gained much appreciation in this publication. The same approach is incorporated in the article published in 2019 entitled as “*EU charts new ground in global connectivity – looks to boost strategic ties with Asia*” published by the PUBAffairs Bruxells (defined as a not for profit think tank organization). In this article, the importance of the EU-Japan cooperation for sustainable connectivity has been discussed. The article “*The EU's Connectivity Strategy: An Answer to China's Belt and Road Initiative?*” published by Broer (2018) puts emphasis on further developing the EU Strategy as a legal document that can be enforced with political endorsement from both the EU Parliament and the Council.

#### 2.4.2 Literature Criticizing the EU Strategy

The other cluster of articles criticizes the EU Strategy particularly on the aspect of not elaborating on how this policy will accommodate the China led BRI. Devonshire (2018) points out in his article “*The EU Commission's EU-Asia Connectivity Strategy Omits China*” that EU has failed to understand the dynamics existing in Asia and it should reconstruct the Strategy to put China in more focus. In the article “*Euro-Asian Connectivity Strategy and the BRI*”, the *OBOReurope* (22 October 2018) which is also a think tank organization, mentioned that the European plan should not be used as an alternative to BRI rather it should act as a complementary financing instrument. Bonnet and Martin (2018) in their article “*An EU Strategy on connecting Europe to Asia... the European way?*” write that imposing the concept of the “European way” over the Asian region is largely problematic because of the difference in between the mindset of the two regions.

In conclusion, it should be mentioned that scholars from both clusters commonly emphasize on the issue that the Euro-Asian Connectivity Strategy needs to be much more comprehensive and elaborated on the aspects of fund allocation, financing and collaboration with other actors especially China. This Strategy is at present in the rollout phase for the political endorsement of the EU Parliament and the Council and once endorsed, will be translated into a full legal document elaborating all the details resolving all such issues (Broer, 2018).

## *Chapter 03: Theory and Operationalization*

In this chapter, theoretical framework related to solving the research question will be discussed. In order to keep the discussion within the scope of the research problem, only those concepts are described that are applicable to approaching the research question rather than their broad and vivid perspectives. The chapter discusses my choice of two theories, namely rational choice institutionalism and sociological institutionalism, applicable for analysing differing preferential policies of EU members and EU partner countries in Europe on their participation in Chinese investment instruments for developing infrastructures in Asia as well as Europe. The theoretical framework is followed by the section of operationalizing the theoretical interests for hypotheses testing.

### *3.1 Theoretical Framework*

The discussion of theoretical framework is divided into three sub-sections. The first sub-section narrates the motivations of my choice for particular institutional theories. The following two sub-sections each focus further on fundamental features of a particular institutional theory. I have followed a certain mechanism utilizing the two selected theories to deduce and hypothesize which institutional features could shape and change the preference policies of the EU members and EU partner countries. This mechanism of exploring a single, or multiple theories and deducing hypotheses to establish potential causal relationships within selected cases as well as case selection is otherwise defined as the multi-variance congruence method (George & Bennet, 2005: 188). The produced outcomes may be competing or complementary in relation to one another and are conclusive in relation the theoretical interest (ibid).

#### *3.1.1 Motivations for the Choice of Selected Theories*

First, rational choice institutionalism conceptualizes institutions as rules and contractual relationships. On the other hand, constructivist perspective is represented here by sociological institutionalism. Though these theories contrast each other based on their differing ontological foundations, they both point to different institutional constraints that could change policy of both formal and informal nature. Second, social phenomena such as foreign policy determination may be caused by more than one causal mechanism. Hence, it is considered important to expand the theoretical framework to identify multiple variables to provide conclusive outcomes through analysis. This attempt to overcome the probability of

inconclusive results is further discussed in the methodology chapter of this thesis where I have described the limitations of the chosen method and ways to overcome them.

In addition, before investigating policy shaping or policy change, the primacy of cause otherwise known as the '*agency-structure problem*' needs to be considered. This issue becomes apparent while handling individual actors and structures both present as separate phenomena without any interactive links. Thus, by complementing rational choice theories on institutions with that of a constructivist perspective incorporating mutual constitution of both agents and structures this issue can be resolved (Carlsnaes, 2012: 125). In this thesis, as per rational choice perspective, I have considered that structures do affect individual action.

Finally, I have used the term individual actor throughout the theoretical framework and should be assumed as the different nation-state actors involved in policy process which are precisely identified in the analytical part of this thesis.

### 3.1.2 *Rational choice Institutionalism*

Central argument of the Rational Choice Institutionalism is that states/actors are rational and thus they pursue their self-interest in the international system (Hindmore in Marsh, 2010: 42). Ontological position of this approach is foundationalist, meaning that the self-interest of the actors is not subjectively created, rather it exists objectively and independent of our knowledge (Furlong and Marsh, 2010: 185). This leads the study to positivist epistemology, meaning that to understand the objective reality (in this case self-interest) we need to uncover the relationships between the actors as well as the causality of the phenomena thereof.

Moravcsik and Schimmelfennig (2009) stress on state centrism as unitary actors and rational self-interest at the centre of decision-making but see institutions as instruments for states to maximize their cost benefit calculations. According to this, institutions will develop as long as they are useful to states and in no way attempt to modify the self-interest of states. In line with this, states are expected to act following the logic of conditionality rather than logic of appropriateness. Simply put, obligations are not affecting the policies; it is rather the preferences and expectations (Horia, 2011: 1697).

Rational Choice Institutionalism argues that liberal multilateralism in a rules based international order sought by the EU as a global actor through its foreign policy instruments is largely conceived as an emerging political opportunity structure that offers some actors



additional resources to exert influence, while severely constraining the ability of others to pursue their goals (Börzel, 2011: 396). It is observed that the inconsistent use of conditionality has been much higher for implementing policy instruments of the EU for member states as well as for EU partner countries with smaller economy or countries with socio-economic deficiency than are for the member states with larger economy (Börzel, 2011: 398). Hence, the logic of conditionality derived from rational choice institutionalism perspective dictates that misfit and pressure for adaptation for those states exerted by the EU results in searching for other development alternatives. Chinese investments appear to be an attractive alternative due to their quicker approval processes and rapid implementation compared to relatively slow process of project preparation and other institutional obstacles for EU funding (Barisitz & Radzyne, 2018: 2).

Based on the above discussion, rational choice theory can therefore be said to define institutions as two overarching concepts. On one hand, institutions create a set of incentives. On the other hand, institutions are defined by a set of constraints. Based on the above exploration an overarching hypothesis can be developed:

*H1: Actors create institutions and use them strategically in order to achieve their own preferences and self-interest (Hindmore in Marsh, 2010: 42).*

Despite the theoretical deduction and development of a hypothesis relating to institutional features for preferences and interests derived from rational choice institutionalism, there is another dimension which needs further exposition. In the context of this thesis, the constraining nature of institutions are of interest for deduction and development of hypotheses in line with the above rational assumptions as following.

*H2: The constraining institution regulate the range of allowed alternatives which will ultimately affect the possible outcomes in the forms of shaping and changing policies.*

In addition, the rational perspective recognizes institutions as a set of rules based on the concept of what type of constraints an institution imposes on individual actor's interest maximization. Accordingly, Ostrom (1986: 5) defines institutional rules as "[...] *prescriptions commonly*

known and used by a set of participants to order repetitive interdependent relationships”. Thus, the concept of institution as a set of rules deduces the following hypothesis.

*H3: If new rule is to be created, subject to formal enforcement, the expectation is that policy should be shaped and changed in accordance with the prescriptions.*

Furthermore, the principal-agent (P-A) perspective on institutions derived from rational choice conception on contractual relationship needs attention. This perspective employs a dual focus on both interactions among institutions as well as in between individual actors and institutions (Peters, 2012: 56). The principal-agent perspective defines institutions as relationship between one actor (*principal*) contracting another actor (*agent*) to perform a task on the principal actor’s behalf (Tallberg, 2003: 16). The principal may either choose to reward the behaviour of the agent that conforms to the preferences and goals of the principal or impose sanction on behaviour that do not (ibid: 23). Based on the above scrutiny on principal-agent relationships, I have reached at the following hypothesis:

*H4: If contractual relationships exist or created in an institutional setting, policy is shaped or changed as a result of avoidance on the part of the agent, unless it is rendered unfavourable.*

### 3.1.3 Sociological Institutionalism

At first, it must be noted that there are three similar but also distinct from one another perspectives within the constructivist orientation. These are namely normative institutionalism, constructivist institutionalism and sociological institutionalism (Pollack, 2010: 24; Wiener, 2006: 41). In this thesis, we refer to sociological institutionalism to specify change mechanisms based on ideational and normative processes arguing that actors are guided by collectively shared understandings of what constitutes proper, socially accepted behavior (Börzel, 2011:396). Hence this attitude, termed as the ‘logic of appropriateness’, leads the analysis to subjectivist epistemology (Wendt, 1999).

As per the sociological institutional concept of institutions as the manifestation of a ‘logic of appropriateness’, institutes require some form of learning mechanism to function effectively

so that that no individual actor can defect from the appropriate behaviour set out by institutional norms and values. The argument closely resembles with the rational choice institutional concept of rules and contractual relationships. However, sociological institutionalism argues for a more informal enforcement through a ‘*socialization*’ process instead as discussed above (Peters, 2012: 38). Thus, the following hypothesis has been deduced from sociological aspect of institutional theory:

*H5: If regular interaction patterns exist, or are created, policy would be shaped by policymakers as per the socially embedded norms.*

Finally, based on the discussion on sociological institutionalism, this study attempts to explore which norms and values are present in the interaction between the EU, individual state actor and China triad and whether they have changed the said actors’ policy preference. In addition, the interaction patterns of policy-making institutions are worth examination because it would determine whether there is a potential for policy to change or not. Hence the deduction for hypothesis is as following:

*H6: If socially embedded norms and values are generated or changed, policymakers respond in accordance with these generated or changed norms and values therefore permitting these norms to shape or change existing policy.*

All these six deduced hypotheses act as examining lenses to attain the purpose of the research question of this thesis based on the theoretical consideration. Operationalization as such has been described in the following section.

### *3.2 Theoretical Framework: Operationalization*

The research question formulated in this thesis asks, “*What institutional factors drive the European Countries towards differing preferences for Chinese Investment Instruments?*” In order to attain the comprehensive yet definite answer by gradually developing the desired conclusion, I have operationalized the formulated research question of this thesis through lens of the deduced hypotheses to explore variables necessary to conduct both the quantitative and qualitative analysis in this section.

- (a) The first hypothesis assumes that individual state actors will prefer association with particular institutes that strategically serves their self-interest. As per this hypothesis, if incentive for participating in the BRI is higher than non-participation, EU members and EU partner states will opt for joining the BRI. There may also be a scenario where a European country choose to adhere to the norms of the EU and restrain itself from joining the BRI though the incentive for joining is high. In this case, that European country can opt to establish partnership with China in multilateral platform if supported by the EU e.g. acquiring the membership of the China led AIIB.
  
- (b) The second hypothesis claims that if there are regulations within the existing institution constraining the incentives of certain state actors, they will eventually change their preferential policies to join new institutions that serve their interest. According to this hypothesis, if institutional rules of the EU limits or constraints the interest of individual state actor, it may choose to join BRI to maximize its incentives.
  
- (c) The third hypothesis dictates that there can be situations where different regulations are needed based on majority consensus driven decision for certain state actors to mitigate the adverse impact of such situations on the overall existing institution. The implication of this hypothesis is that EU can impose sanctions in the form of corrective measures on a European country that does not conform to existing EU conditions and regulations. Logic behind such actions is that the incentive to participate in the European single market is yet considered to be higher than not having the chance even if a European country is constrained by EU rules.
  
- (d) The fourth hypothesis points that if individual states being the principal actors in the existing institutional setting render the activities and performance of the institute to be unfavourable for them, they (state actors) opt to change their preference policies towards joining new institutions that favours their interest. Imposing of prescribed conditions by EU on a particular European state constraining its interest achievement has already been identified in the case of third hypothesis and it again leads to the assumption of second hypothesis.

- (e) The fifth hypothesis assumes that if a state actor decides to join a new institution to preserve its interest, it will prefer to create such institution with such other actor or actors that it has maintained a long interactive relation based on mutually agreed norms. As per this hypothesis, a European country may shape its preference policies if it has a favourable and interactive relations with China for a long time.
  
- (f) The sixth hypothesis predicts that in case of individual state actors joining new institutions, they attempt to influence the established norms in the existing institutions to change in such way that will favour preservation of their self-interest in the new institution. According to this hypothesis, if a European country joins China led BRI or AIIB without formal consent from the EU, it is expected to change or shape its foreign policy so that it is in conformity with the preference and objective of China. In addition to the assumption of this hypothesis, such situations violate both the exclusive competence of the EU in common trade policy along with the primacy of EU law, weaken the internal coherence of the EU and thereby pose a threat to its unitary global actorness as a major economic power.

Examining all the six hypotheses deduced from the theoretical consideration thus act as multiple variables against collected data and observations from scholarly works that produce not only the outcomes in relation to the research question of this thesis but also guide case selections for mixed method analysis.

## *Chapter 04: Research Methodology and Materials*

### *4.1 General Introduction*

In this section, I discuss my choice on selecting the research methodology for this study. It must be noted that two important factors determine the selection of a particular research methodology. First, the relationship between the research question with the research task and second, the method of choice by the researcher to pose them (Yin, 2009: 10). Particular methodologies deem to be better fitted to accommodate a research question as well as research tasks while other methodologies are regarded to be less suitable to fit that same research agenda developed by that specific researcher (George & Bennett, 2005: 6). I have designed this study to be a comparative analysis. Comparisons can be of both quantitative and qualitative nature. The method utilized in this study is the “nested analysis” which is a mixed method strategy for comparative analysis. The chosen methodology is more vividly introduced in the following section.

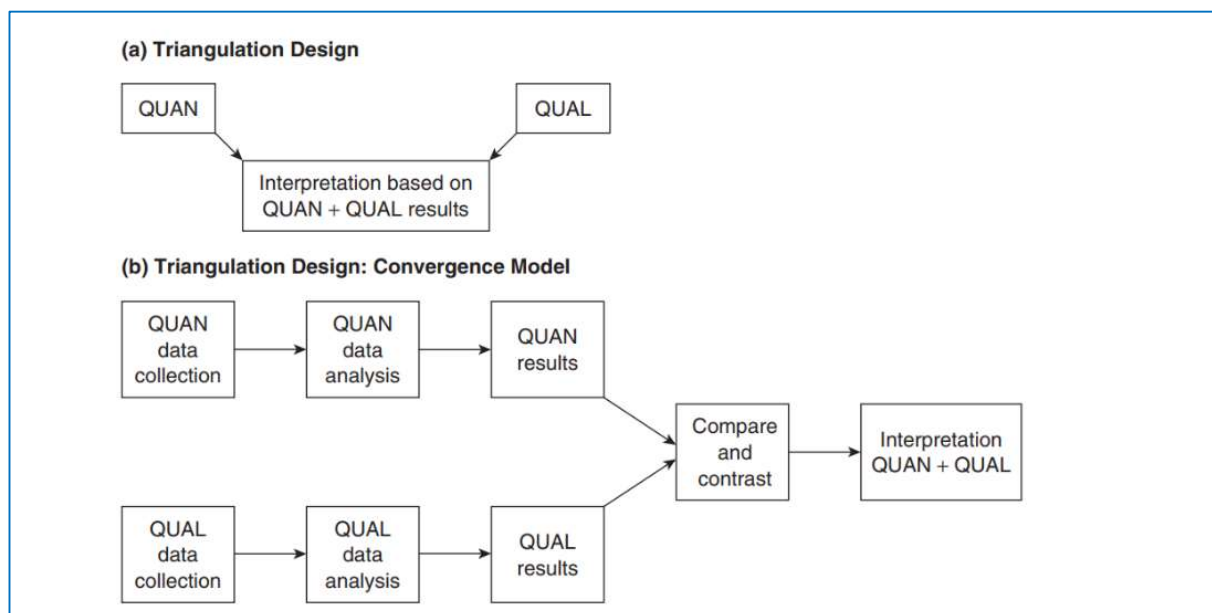
### *4.2 Nested Analysis as a Mixed Methods Strategy*

Mixed methods research is defined as an integrated approach to inquiry combining or associating both qualitative and quantitative forms (Aramo, 2013 in Lytras et al). Mixed methods designs are applicable across research disciplines, particularly in the case of holistic analysis of complex systems, such as mega-projects (ibid). The unified approach within the aspect of mixed method strategy which joins intensive case-study analysis with statistical analysis is termed as the “nested analysis” (Lieberman, 2005). This strategy has advantages of combining both the approaches (quantitative statistical analysis and qualitative case -study analysis) as well as it poses a synergistic value. First, statistical comparative analyses provide directions for in-depth and more focused case studies and comparisons in this method. On the other hand, small-N comparative analyses are utilized to measure the generated plausibility of observed statistical relationships between variables that lead to operationalize theoretical understandings and develop better measurement strategies for further research. Furthermore, additional tests of hypotheses generated from proposed theoretical framework can also be provided from small-N research. This strategy is recognised to improve the prospects of formulating valid causal inferences in cross-national comparative research (ibid).

Triangulation Design is known to be the most common and important approach to mixed methods (Creswell et al in Tashakkori & Teddlie, 2003). This design organizes differing attributes of quantitative methods (large sample size, trends, generalization) with those of qualitative methods (small *N*, details, in depth) thus converging strengths and non-overlapping weaknesses of both during the same timeframe with equal weight (Creswell, 2007: 62-64). As Creswell indicates, this design helps a researcher to “[...] *directly compare and contrast quantitative statistical outcomes with qualitative findings or to validate or expand quantitative results with qualitative data*” (ibid: 62). There are four variants of the triangulation design; namely convergence model, data transformation model, validating quantitative data model, and multilevel model. First two models differ on how the two data types are effectively merged (either during interpretation or during analysis), the third model attempts to heighten findings derived from a survey, and the fourth investigates different levels of analysis (ibid: 64).

The model suited for this study is the convergence model (Figure 03: a and b) where the researcher collects and analyses quantitative and qualitative data separately on the same objects of inquiry.

Figure 03: Triangulation Design: Convergence Model



Source: Creswell, 2007: 63

The different results are then converged by comparing and contrasting the different results during the interpretation to validate, confirm, or corroborate quantitative results with

qualitative findings. The model thus delivers valid and well-substantiated conclusions regarding a single phenomenon (ibid).

#### 4.3 *Quantitative Statistical Analysis: Comparative Descriptive Statistics*

For the quantitative comparative analysis part of this study, I have used the method of comparative descriptive statistics. Descriptive statistics is defined as the analysis of collected data on certain objects of inquiry that helps describe, show or summarize data in a meaningful way such that a pattern or patterns might materialize from the data (Descriptive and Inferential Statistics, *Laerd Statistics*). The emerged pattern(s) will enable us to test the hypotheses generated from the theoretical considerations. Selection and operationalization of the variables for the quantitative statistical analysis of the study derived from the theoretical discussion and hypotheses have been discussed in the quantitative analysis section of the Nested Analysis Chapter (Chapter 05) in line with the theoretical considerations as well as the developed hypotheses.

#### 4.4 *Qualitative Analysis: Comparative Case Studies*

In the qualitative case study section in Chapter 05 of this study, five selected case studies are presented. These case studies are employed in the analysis of how countries within the EU as well as EU Partner countries with differing national economic capacity (high income, upper-middle income and lower-middle income) have approached towards Chinese investment instruments for financing infrastructure development and other financial sectors while they were all eligible of either investing or receiving investment through the EU's TEN-T program or similar framework.

As Campbell (2009: 175) describes, comparative case study method “[...] *examines in rich detail the context and features of two or more instances of specific phenomena*”. Qualitative comparative analysis refers to the attempt to understand traits, attributes and characteristics of the objects of inquiry (Landman, 2008: 22). In relation to this thesis, this concept stands for the understanding of which attributes derived from institutional theories (for example, rational choice institutionalism) could cause foreign policy of European countries (EU members and EU partners) to change (if it changes at all) towards Chinese investment schemes rather than EU facilitation for funding in infrastructure development. Countries selected for comparative qualitative case studies are namely Italy, Ireland, Greece, Portugal and Spain. All of these



countries are EU members with high national income who were severely hit by the “European Debt Crisis” (otherwise known as the Eurozone Crisis or the Europe’s Sovereign Debt Crisis) in 2008. Together these countries are often termed as PIIGS (Kenton, 2020). Though their formal causal factor to seek external funding other than the EU to mitigate their failure to repay government debt and budget deficit derive from the same event, interestingly their responses towards the Chinese investment schemes differ from one another (ibid).

Comparative case study designs also have the potential to develop new variables or theories that can be examined across formerly unexamined evidence (George & Bennet, 2005: 21) and thereby creating opportunities for further research in the Study field.

#### 4.5 *Limitations of the Chosen Method and Ways to Overcome Them*

In this study, I have selected to utilize nested research design combining both quantitative large-N and qualitative small-N which calls for an examination of such design’s limitations and ways to overcome them.

First, the descriptive statistical analysis of a large-N data, unlike the inferential statistical analysis, cannot be used to predict conclusions beyond the analysed data (Descriptive and Inferential Statistics, *Laerd Statistics*). In order to reach conclusions regarding the hypotheses developed from theoretical considerations, summarizing the collected data is considered to be helpful (Hypothesis Testing, *Laerd Statistics*). In addition, a researcher can resort to comparative small-N case study design when establishing credible controls through statistical comparisons are not deemed feasible (Lijphardt, 1971: 684). The small-N case study design seems highly suitable for the purpose of investigating the institutional choice made by the selected case countries. Further, small-N case study provides much more vigour to the study due to evidence collection from multiple cases (Yin, 2009: 53).

Second, there is a predominant drawback linked to case selection process termed as the “selection bias” (George & Bennett, 2005: 24; Seawright & Gerring, 2008: 294). Random case selection may provide unbiased samples (Seawright & Gerring, 2008: 295). But it can, at the same time, lead to nullifying representativeness (ibid: 295) as well as the control of comparison (George & Bennett, 2005: 151-152). To resolve this issue of representative, a purposive

selection of case studies in line with the selected research strategy as well as the theoretical considerations is required (Seawright & Gerring, 2008: 295-296).

And third, it must be kept in mind that social phenomena such as foreign policy determination at the national level is often subject to multiple or complex causality, thus leading the case studies to producing provisional generalizations where only a single variable is considered (George & Bennet, 2005: 22). In order to overcome such problems, I have devised both formal and informal aspects of what constitute an institution through the theoretical considerations of the two chosen institutional theories of this study (rational choice institutionalism and social institutionalism) and thereby deduced multiple hypotheses on which institutional constraints could cause a variance in the European countries' (EU member and EU partner) policies. That is, to lean towards Chinese investment schemes. As a result, these hypotheses provide multiple causalities that act as multi-variables in both the large-N and small-N comparative analysis. It leads to avoiding inconclusive results derived from single independent variable analysis pointing to differing causal mechanisms (George & Bennet, 2005: 186). At the same time, this mechanism produces outcomes that are consistent with the theoretical consideration and hence establishing causal relationships to theoretical interest (ibid: 181). This procedure is in accordance with the multi-variance congruence method which has been introduced in the Theoretical Framework section of this thesis.

Finally, the issue of replication in small-N designs that is ensuring comparability of the cases needs to be addressed. Replication of cases can be achieved in two ways- by selecting cases that predict same results or, that predict contrasting results (Yin, 2009: 54). This is also compatible with the multi-variance congruence mechanism producing outcomes in line with the theoretical predictions and expectations as mentioned in the paragraph above. In accordance with theoretical anticipations and the devised multi-variance congruence mechanism discussed above, the replicability of my case studies is on same result basis. That is, the selected case countries have all been through the "European Debt Crisis", suffered from austerity measures imposed by main EU institutions and were desperately seeking for alternative sources of funding from external actors with whom they have long interactive relations (Kenton, 2020). The anticipation of policy change to participate in Chinese investment instruments as a result of institutional choice replication between the cases derives

as per the chosen institutional theories conceived in this study, and therefore comparability can be established.

#### *4.6 Study Materials and Data Sources:*

It is understood that country-specific sources to get sufficiently detailed data may take considerable time to locate. That's why, in this study I have used publicly available information from formal institutional features. They can be classified to primary and secondary sources as mentioned below.

- i. Primary Sources- official policy documents, press release and statistical data published by the EU and other government agencies particularly necessary for the quantitative analysis; and
- ii. Secondary Source- scholarly articles published by academicians and officials for qualitative analysis purpose. In addition, primary statistical data have also been utilized in the qualitative study.

As suggested by Bowen (2009: 32), I have conducted document analysis of the collected materials which involved skimming (superficial examination) and reading (thorough examination) combining both primary and secondary materials that led to elaborated interpretation. In order to minimize the risk of objective interpretation, in other words a biased view of the researcher to a particular conception, I have tried my level best to evaluate the primary and secondary materials including EU and other government publications as well as all scholarly articles in the same critical mode.

## *Chapter 5.0 Nested Analysis through Mixed Methods Comparative Study*

It has been mentioned in detail in the methodology chapter of this thesis that this study has followed nested mixed-methods research design. This notion of a mixed methodology corresponds to the deduced hypotheses of this study. Following the unified “nested” research design (Lieberman: 2005), this study adopts a research design that at first makes a preliminary large-N comparative analysis through descriptive statistics based on variables determined from the research question and derived hypotheses. After that, five cases are chosen for the small-N comparative analysis to assist the study in adapting results generated from the large-N analysis. Outcomes from the large-N part of the study and the small-N part are deemed to be mutually supportive.

### *5.1 Quantitative Analysis: Comparative Descriptive Statistics*

To assess the factors that might cause European countries to prefer joining Chinese investment schemes, I first provide quantitative statistical evidence to test what might affect a European country’s decision. The step by step descriptive statistical analysing activities of the study are outlined as following.

#### *5.1.1 Creating the Data Set*

First of all, to conduct the large-N statistical analysis, the study needs to create knowledge of the EU member and EU partner countries in Europe on their approach towards the Chinese investment instruments for their probable intention on infrastructure investment in Asia as well as Europe. The criteria to choose a European country to be included in the data set are that they participate in the European single market and are eligible for EU financial and technical assistance.

I have included all of 27 members of the EU in the data set<sup>2</sup>. In addition, 04 European countries that are candidate for EU membership (namely Albania, Montenegro, North Macedonia and Serbia)<sup>2</sup> have been included in the data set. 02 potential candidate countries for EU membership- Bosnia and Herzegovina and Kosovo are also included in the data set. 03 out of 04 European countries in the European Free Trade Association<sup>3</sup> (EFTA) namely Iceland,

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<sup>2</sup> European Union website, [https://europa.eu/european-union/about-eu/countries\\_en](https://europa.eu/european-union/about-eu/countries_en).

<sup>3</sup> EFTA website, <https://www.efta.int/about-efta/the-efta-states>.

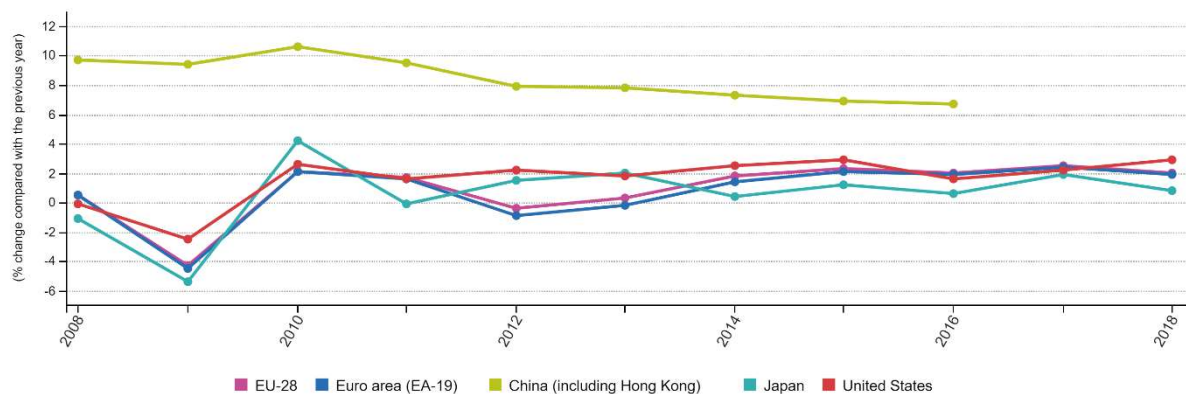
Norway and Switzerland are included in the data set as well. Furthermore, 03 European countries that have association agreement with the EU (Georgia, Moldova and Ukraine)<sup>2</sup> have been included in the data set. Finally, though the United Kingdom (UK) is currently not a member of the EU, it still is enjoying the benefits under special arrangement until a final solution can be reached. Hence, it also has been included in the data set. It should be noted that though Liechtenstein is a member of the EFTA, most of the publicly available national data of this country has not been updated by its government after 2017. As a result, Liechtenstein has not been included in the data set in order to maintain comparability. In addition, Turkey has been excluded from the data set as its candidacy for the EU membership has been stalled for uncertain period. The number of European countries in the data set for the large-N analysis thus comes to 40 in total.

Second, a multitude of economic indicators including Gross Domestic Product (GDP), Gross National Income (GNI) per capita and Government debt-GDP ratio from the public sources of National Accounts are considered as well-known variables for statistical comparison between countries (*National Accounts and GDP, Eurostat Statistics Explained, EC Website*). GDP is the most frequently used measure for the overall size of an economy, while other derived indicators such as the GNI per capita in Euro (or adjusted for price level differences) are widely used for a comparison of living standards as well as to monitor economic convergence or divergence within the EU. Moreover, the development of specific GDP components and related indicators including imports and exports along with direct investments can provide valuable insights into the main drivers of economic activity. It thus can be the basis for the design, monitoring and evaluation of specific public policies both in the EU and Individual State actors (*ibid*).

It is observed during the data collection that most of the publicly available data of the European countries on economic parameters such as the GDP, GNI Per Capita and Government debt-GDP ratio are available only up to 2018. Trade related data such as the outward and inward direct investment of European countries are also available up to 2018. Official EU statistics reveal (*Figure 04*) that the real GDP growth rate within the EU countries drastically went down during the European debt crisis in 2009. The GDP growth rate in real started to regain higher stability level from 2013. Since 2013 up to 2018, the real GDP growth rate within the EU has been stable at nearly 02% (*ibid*). It means that comparison between the European countries based on their economic parameters since 2013 (after the commencement of Chinese

investment schemes) up to 2018 or over a particular time period of one year would produce similar findings.

Figure 04: Real GDP Growth within the EU based on chain linked volumes, 2008- 2018



Source: National Accounts and GDP, Eurostat Statistics Explained, EC Website, 09 January 2020.

Therefore, to keep the scope of the study both plausible and manageable and also to ensure the comparability, all variables used in the large-N statistical analysis has been gathered from 2018 data rather than a time series.

Table 05: Data set of Selected European Countries in the Large-N Analysis with Economic Parameters

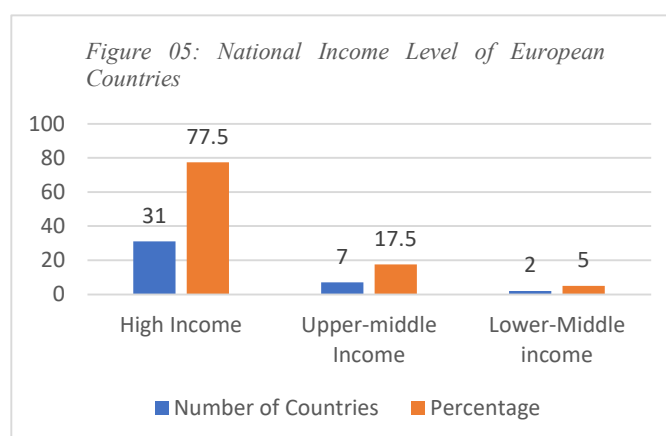
Sl. No.	Country Name	GDP (Billion USD)	GNI Per Capita (Atlas method-current USD)	Govt. Debt/GDP Ratio (%)	National Income Level <sup>4</sup>
1	Albania	15.10	4,860	63.63	Upper-middle income
2	Austria	455.29	49,130	73.8	High income
3	Belgium	542.76	45,910	102	High income
4	Bosnia & Herzegovina	20.16	5,740	24.8	Upper-middle income
5	Bulgaria	65.13	8,860	18.6	Upper-middle income
6	Croatia	60.97	14,000	74.1	High income
7	Republic of Cyprus	24.96	26,300	102	High income
8	Czech Republic	245.23	20,240	32.7	High income
9	Denmark	355.68	60,140	34.1	High income
10	Estonia	30.73	21,140	8.4	High income
11	Finland	276.74	48,280	58.9	High income
12	France	2,777.54	41,080	98.1	High income
13	Germany	3,947.62	47,090	61.9	High income
14	Georgia	17.60	4,440	43	Upper-middle income
15	Greece	218.03	19,770	181	High income

<sup>4</sup> National income level of the European countries in the data set has been determined according to the threshold set by the World Bank in 2018, *World Bank Data team*, 01 July 2019, <https://blogs.worldbank.org/opendata/new-country-classifications-income-level-2019-2020>.

16	Hungary	157.88	14,780	70.8	High income
17	Iceland	25.88	67,960	37.7	High income
18	Ireland	382.49	61,390	63.6	High income
19	Italy	2,083.86	33,730	135	High income
20	Kosovo	7.94	4,220	17.12	Upper-middle income
21	Latvia	34.41	16,510	35.9	High income
22	Lithuania	53.43	17,430	34.2	High income
23	Luxembourg	70.89	70,870	21.4	High income
24	Malta	14.55	26,480	46	High income
25	Moldova	11.44	2,980	27.4	Lower-middle income
26	Montenegro	5.50	8,430	62.27	High income
27	Netherlands	913.66	51,260	52.4	High income
28	North Macedonia	12.67	5,450	40.7	Upper-middle income
29	Norway	434.17	80,610	36.3	High income
30	Poland	585.66	14,100	48.9	High income
31	Portugal	240.67	21,990	118	High income
32	Romania	239.55	11,290	35.1	High income
33	Serbia	50.60	6,390	54.5	Upper-middle income
34	Slovakia	105.90	18,260	48.9	High income
35	Slovenia	54.01	24,580	70.4	High income
36	Spain	1,419.04	29,340	95.5	High income
37	Sweden	556.09	55,490	38.8	High income
38	Switzerland	705.14	84,410	40.9	High income
39	UK	2,855.30	41,770	80.8	High income
40	Ukraine	130.83	2,660	60.9	Lower-middle income

**Observations:** Of these 40 European countries-

- i. only 02 (05% of the Total) are at the lower-middle income level (1,026 - 3,995 USD),
- ii. 07 (17.5%) are at upper-middle income level (3,996 - 12,375 USD) and
- iii. the rest 31 (77.5%) are at high income level (above 12,375 USD). The comparison is graphically presented on Figure 05.

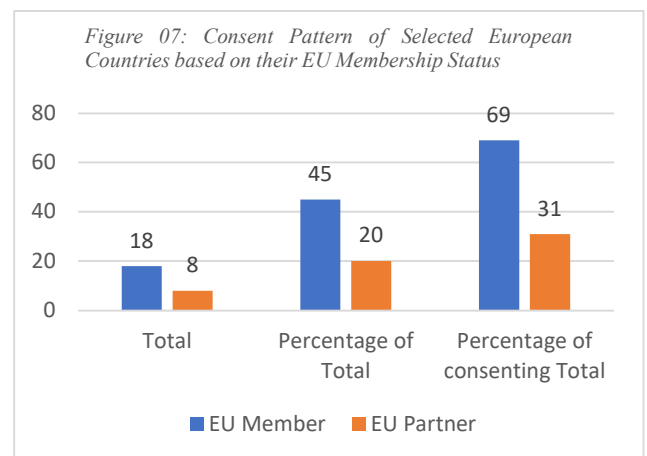
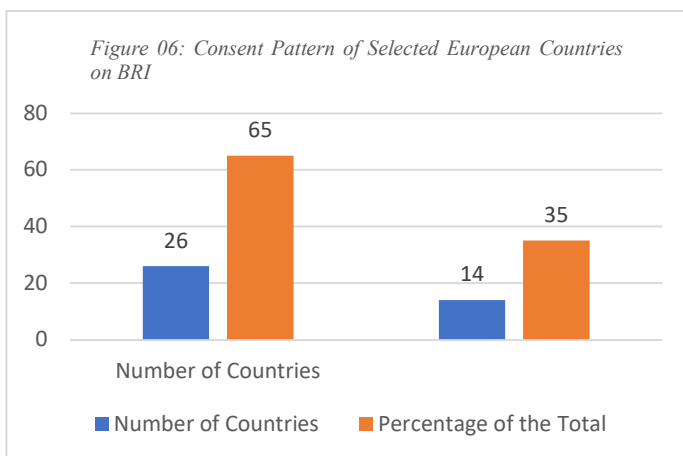


### 5.1.2 Identifying the Factors of Influence:

In this section, I have attempted to identify the potential factors that may have influenced the European countries to shape their policy preference towards the Chinese BRI. These factors are discussed with their representative quantitative and graphic presentation. For the ease of graphical presentation, I have mentioned those participating in the BRI among the selected European states as consenting countries and the non-participant of BRI as nonconsenting countries.

#### (a) *Consent for the BRI*

First of all, I have identified the European countries<sup>5</sup> that have already signed memorandum of understandings (MoU) with China to join the BRI. The list of Participation of selected European Countries in the BRI has been placed in Table 06 in Annex II. The graphical comparisons of the extracted data are as following (Figure 06-09).



Observations: It is observed that out of 40 selected European countries-

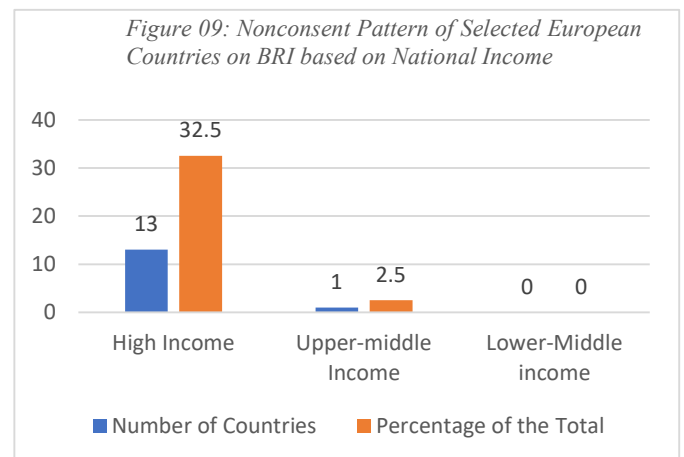
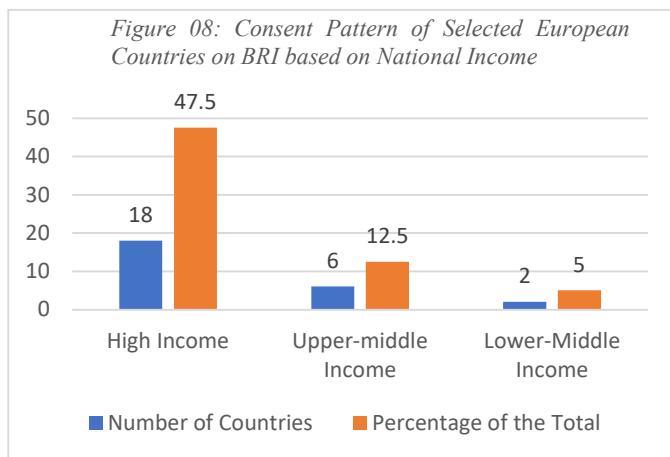
- i. Currently 26 (65%) European countries have signed MoUs to participate in the BRI whereas 14 (35%) did not.
- ii. Within the 26 consenting European countries, 18 (45% of the total) are EU members namely Austria, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Estonia, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Portugal, Romania, Slovakia, and Slovenia. The rest 08 (20% of the total) are EU partner countries in Europe

<sup>5</sup> The online list is available on the website of The Green Belt and Road Initiative Centre.



namely Albania, Bosnia and Herzegovina, Georgia, Moldova, Montenegro, North Macedonia, Serbia and Ukraine. Their percentage within the consenting countries are 69% and 31% respectively.

- iii. Both the lower-middle income countries (05%) and 06 (12.5%) out of 07 upper-middle income countries along with 18 (47.5%) high income level countries have consented to participate in the BRI.
- iv. Nonconsenting countries include 13 (32.5%) high income countries and 01 (2.5%) upper-middle income country.



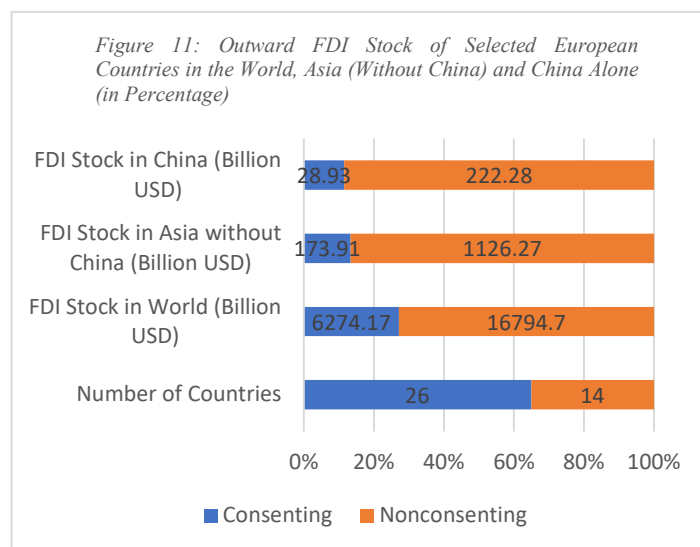
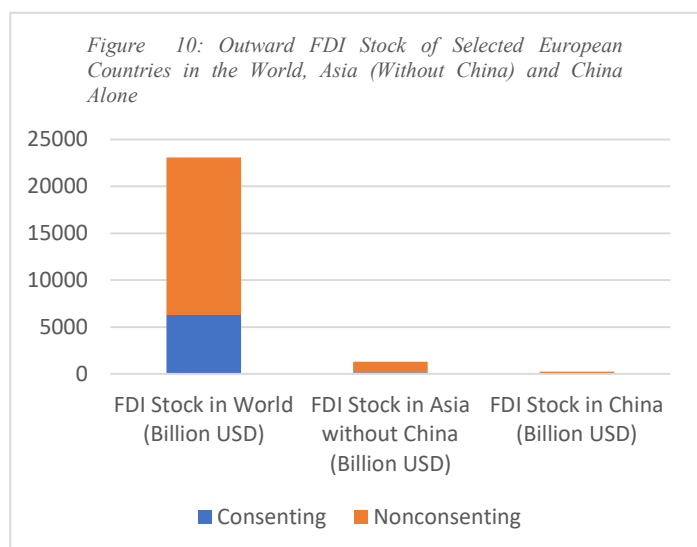
**Significance:** The observations indicate that major portion of the selected European countries have chosen to join the BRI. The rate of preference for BRI is higher within upper-middle income and lower middle-income countries.

(b) *Incentives for joining the BRI*

Incentives for participating the BRI may be derived from export and direct investment by each European country with China along with all of the Asian regions together (Central Asia, South Asia, Southeast Asia and East Asia without China). These regions are potential export markets and direct investment destinations for EU member and EU partner countries particularly with high volume concentrated to China. To test the economic factors involved, the volume of each European country’s outward foreign direct investment (FDI) stock<sup>6</sup> in those regions and inward direct invest from China in the selected European countries can be utilized. In addition, the

<sup>6</sup> Data on outward FDI Stock from the selected European countries to China and all of the Asian regions together as well as data on inward FDI Stock from China to the selected European countries have been collected from the *CDIS Database* of the IMF and cross verified with the *OECD Statistics*. However, as FDI Stock data is suppressed by either the reporting economy or the destination economy, the real figure of the inward and outward FDI Stock from those European countries to China and other Asian countries is supposed to be higher than the collected data. FDI data of Kosovo and Taiwan had to be collected respectively from Statistical Yearbook of Kosovo and *Taiwan Bureau of Trade website*.

total volume of exports of these European countries to those Asian regions can be analysed<sup>7</sup>. Figure 10 and 11 attempts to depict the causal relationship between outward FDI Stock of the selected European countries in the world, in Asia (without China) and China alone with BRI participation. Detailed data are placed on Table 07 in *Annex II*.



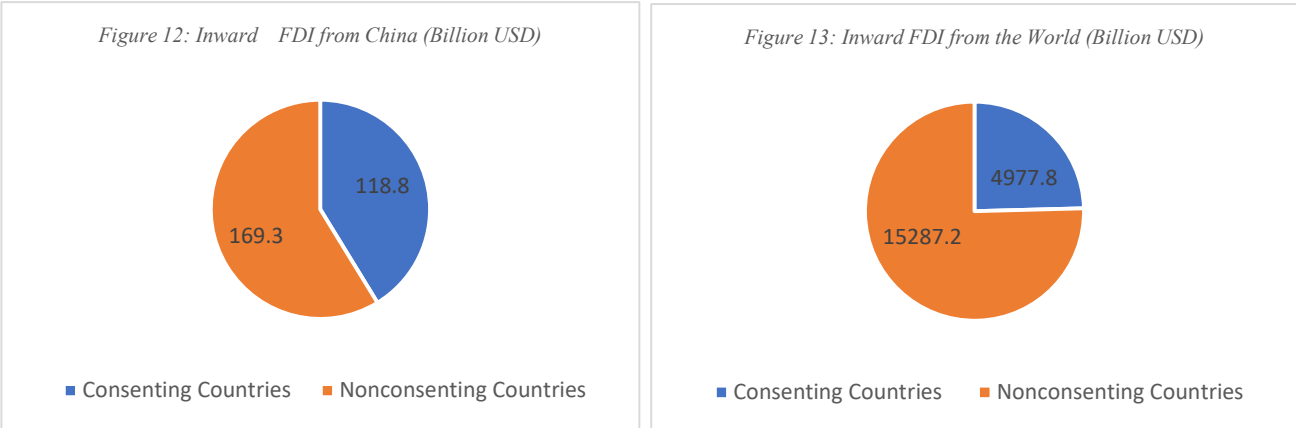
Observations: from Figure 10 and 11, we get that-

- i. The combined outward FDI Stock of the selected 40 European countries in 2018 in the world accounts for 23,068.87 billion USD. Their combined outward FDI Stock in Asia (without China) and in China alone are 1300.18 billion USD (5.63% of the total) and 251.21 billion USD (1.1% of the total) respectively.
- ii. Outward FDI Stock of the 14 nonconsenting countries account for 16794.7 billion USD for the world, 1126.27 billion USD (6.7% of their FDI stock for the world) for Asia (without China) and 222.28 billion USD (1.32% of their FDI stock for the world) for China. On the other hand, outward FDI Stock of the 26 consenting countries account for 6274.17 billion USD for the world, 173.91 billion USD (2.77% of their FDI stock for the world) for Asia (without China) and 28.93 billion USD (0.46% of their FDI stock for the world) for China.
- iii. Outward FDI Stock of the 14 nonconsenting countries constitute 72.8% of the total outward FDI Stock of the selected 40 European countries for the world. The ratio for their outward FDI stock in Asia (without China) and in China alone constitutes 86.6% and 88.5% respectively within the selected 40 European countries. At the same time,

<sup>7</sup> Data on export volume have been gathered from UN Comtrade Database.

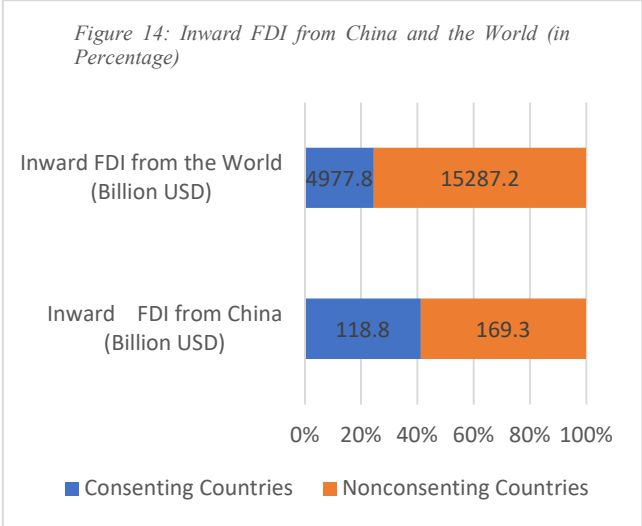
outward FDI Stock of the 26 nonconsenting countries constitute 27.2% of the total outward FDI Stock of the selected 40 European countries for the world. The ratio for their outward FDI stock in Asia (without China) and in China alone constitutes only 13.2% and 11.5% respectively within the selected 40 European countries.

Figure 12, 13 and 14 identify the influencing factor between BRI participation of the same countries with their inward FDI from China. Detailed data are on Table 08 in *Annex III*.



Observations: from the three representative graphs, we find that-

- i. The inward flow of direct investment from the whole world in the BRI participant countries amounts to 4977.8 billion USD whereas it amounts to 15287.2 billion USD in the non BRI participant countries. The percentage is 24.56% and 75.43% respectively.
- ii. The inward flow of direct investment from China in the BRI participant countries amounts to 118.8 billion USD whereas it amounts to 169.2 billion USD in the non BRI participant countries. The percentage is 41.23% and 58.72% respectively.
- iii. The inward flow of direct investment from China in the BRI participant countries against their respective volume from the world account for 2.38% whereas the inward flow of direct investment from China in the non BRI participant countries against their respective volume from the world account for only 1.1%.



Significance: Though the inward flow of direct investment from China in the non BRI participant countries is higher in volume, it is relatively lower in ratio compared to the inward flow of direct investment from China in the BRI participant countries. As a result, it works as an influencing factor for the choice of joining the BRI. On the other hand, due to lower ratio of the inward flow of direct investment from China compared respectively to that from the world, the non BRI participant countries may opt for incentives in other forms than the BRI.

Figure 15 and 16 explore (as per Table 09 in *Annex IV*) the causal relationship between BRI participation of the same countries with their export of goods to the world, Asia (without China) and China alone.



Observations: from the two graphs presented above, the following observations derive.

- iv. The combined goods export of the selected 40 European countries to the world in 2018 accounts for 6835.95 billion USD. Their combined goods export to Asia (without China) and to China alone are 441.76 billion USD (6.46% of the total) and 283.59 billion USD (4.14% of the total) respectively.
- v. Goods export of the 14 nonconsenting countries account for 1899.32 billion USD for the world, 50.75 billion USD (2.7% of their goods export to the world) to Asia (without China) and 38.27 billion USD (2.01% of their goods export to the world) to China. On the other hand, goods export of the 26 consenting countries account for 4936.63 billion USD to the world, 391.01 billion USD (7.9% of their goods export to the world) to Asia

(without China) and 245.32 billion USD (4.9% of their goods export to the world) to China.

- vi. Goods export of the 14 nonconsenting countries constitute 27.7% of the total goods export of the selected 40 European countries for the world. The ratio for their goods export to Asia (without China) and to China alone constitutes only 11.5% and 13.5% respectively within the selected 40 European countries. At the same time, goods export of the 26 consenting countries constitute 72.3% of the total goods export of the selected 40 European countries for the world. The ratio for their goods export to Asia (without China) and to China alone constitutes 88.5% and 86.5% respectively within the selected 40 European countries.

*Significance:* From the 07 graphic presentations above, it is obvious that higher inward direct investment flow from China along with higher export volume of 26 consenting countries to Asia along with China play an import and influential role on their decision to join the China led BRI. On the other hand, though the nonconsenting 14 countries have higher outward FDI Stock in Asia along with China, they refrain from joining the BRI. This decision of non-participation in the BRI can further be clarified when we consider that the size of the country economy might have a positive association with FDI stock and export volume which can be measured with the GDP along with GNI Per Capita. This scenario has been presented on the following paragraph (d) entitled *Constraints Influencing Preference Policy*.

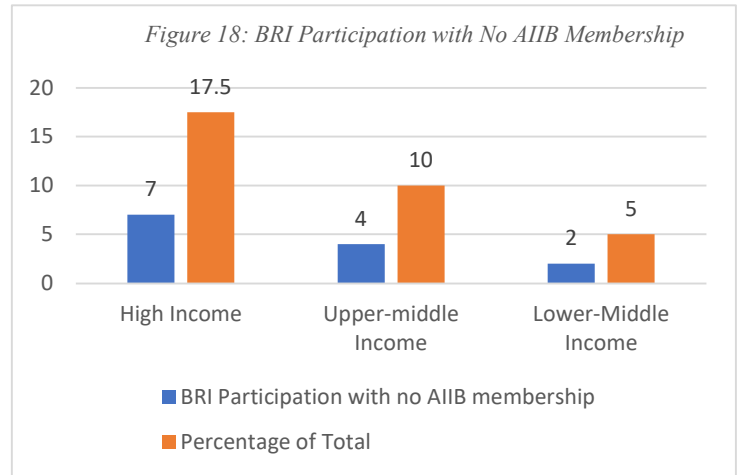
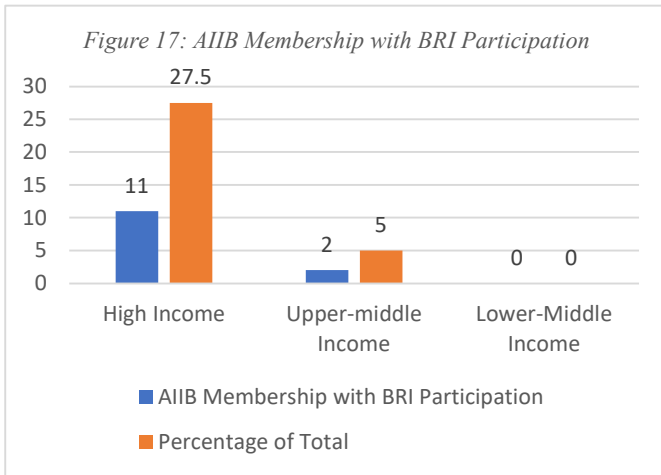
*(c) Incentives in the Form of Material Benefits*

Other than the economic incentives derived from direct trade and investment, the selected European countries might also be attracted to Chinese infrastructure investment in another form- the Asian Infrastructure Investment Bank (AIIB). The AIIB has been established solely with the purpose of funding the infrastructural development in Asia<sup>8</sup>. Though the BRI and the AIIB are distinct entities, the obvious interconnection followed by potential material benefits provided by the China led AIIB (Wade, 2017) are another important incentive that can influence the preference of European states to join the BRI. The list of AIIB members from the selected European countries as well as the linkage between AIIB membership with BRI

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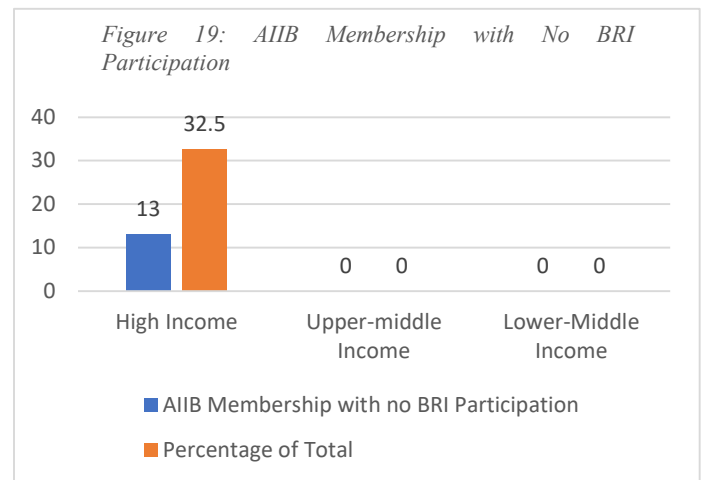
<sup>8</sup> Data on membership in the AIIB have been collected from the AIIB website.

participation compared with national income are on Table 10 in *Annex V*. The data extract is presented in Figure 17, 18 and 19.



Observations: The observations are-

- i. 13 (32.5%) high income countries subscribed the AIIB membership without participating in the BRI whereas 11 (27.5%) high income countries subscribed the AIIB membership as well as participating in the BRI.
- ii. 02 (05%) upper-middle income countries subscribed the AIIB membership without participating in the BRI whereas 04 (10%) upper-middle countries subscribed the AIIB membership as well as participating in the BRI.
- iii. 02 (05%) lower-middle income countries joined the BRI without subscribing the AIIB membership.
- iv. Only 01 (2.5%) upper-middle income country (Kosovo) has neither subscribed AIIB membership nor participates in the BRI.



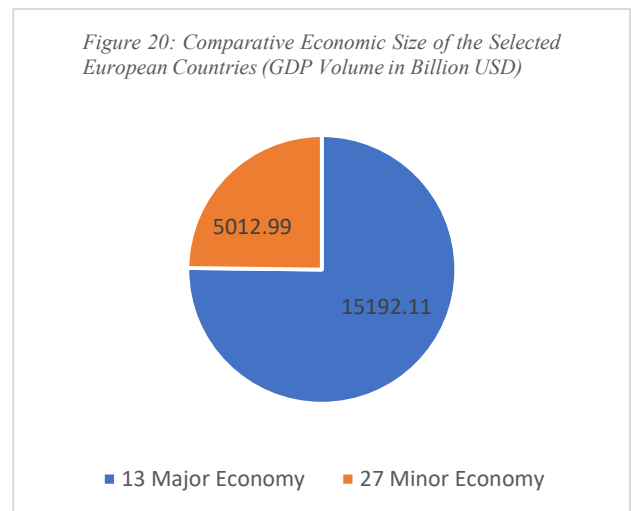
Significance: The ratio of subscribing AIIB membership without participating in the BRI is higher among the high-income countries while the upper-middle and lower-middle income countries participate highly in the BRI without subscribing AIIB membership. In addition, it has been identified from Figure 10, 11 and 12 that 13 out of the 14 non- BRI participating countries with high in volume inward FDI flow from China have subscribed the membership of AIIB.

(d) *Constraints Influencing Preference Policy*

The constraining rules as per the rational choice theory and deduced hypothesis 02 refers that European countries rather weaker politico-economic structure face the stricter conditionalities and longer approval process for investment in infrastructure development activities through the existing TEN-T program of the EU. Hence, they prefer to approach relatively unconditional Chinese investment skim. As they are not sufficiently able to afford to subscribe to the AIIB's shares due to their fiscal difficulties (Chen, 2018: 301); therefore, they may choose BRI instead for funding such activities in their own country. This factor can be identified with utilizing GDP, national income level and government debt to GDP ratio as control variables. The representing data are on Table 05 above. The summary is presented on Figure 20.

Observations: I have found that-

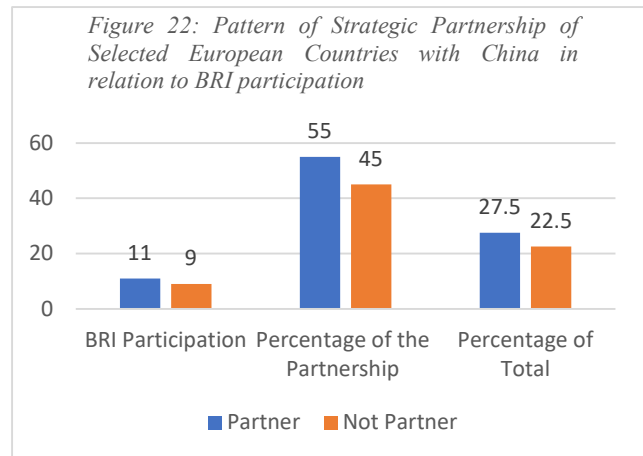
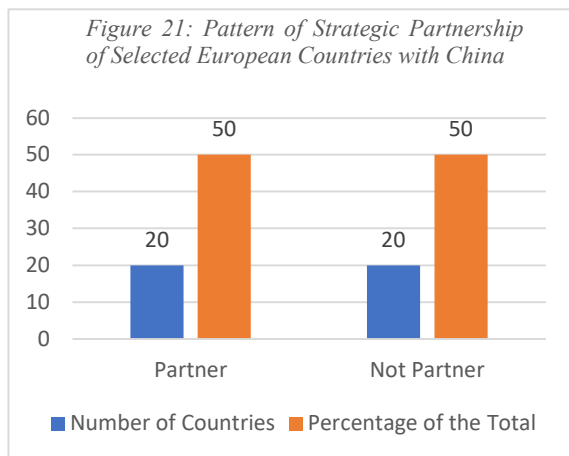
- i. 13 among the 14 non-participating countries in the BRI are high income states (namely Belgium, Denmark, Finland, France, Germany, Iceland, Ireland, Netherlands, Norway, Spain, Sweden, Switzerland and UK) who have more than 29,000 GNI Per Capita ranging up to highest 85,000 USD GNI Per capita which are higher than other high income countries in the data set. The other 01 (Kosovo) is an upper-middle income country with only a little over 4000 USD GNI Per capita and a GDP of nearly 08 billion USD which are negligible comparing with the other 13 nonconsenting countries.
- ii. 04 of these 13 non BRI participating countries with high GNI Per Capita have the GDP over 1,000 billion USD whereas the other 07 have the GDP below 1000 billion USD. Only 02 of them have GDP below 300 billion USD. Even these 02 countries with GDP below 300 billion USD have GNI Per Capita over 40,000.
- iii. The combined GDP of the selected 40 European countries in 2018 was 20,205.10 billion USD whereas the combined GDP of these 13 non-consenting countries were 15,192.11 which is nearly three-fourth of the total. The rest 27 countries' combined GDP is only one third in comparison.
- iv. The linkage of government debt-GDP ratio visibly has no linkage.



*Significance:* European countries that have stronger economic with higher manoeuvrability in the global marketplace are not inclined to join the BRI. On the other hand, countries with relatively limited economic size that struggle to expand their economy size and thereby maximize their interest opt to join the BRI.

*(e) Strategic Partnership with China*

As predicted with hypothesis 5 and hypothesis 6 in the theoretical section of this thesis, the strategic partnership diplomacy of China<sup>9</sup> can be an important factor of whether a particular European country prefer joining Chinese investment schemes or not. It has been an integral instrument for pursuing Chinese foreign relations since the end of the cold war (Li Q & Ye M, 2019). Although a strategic partnership is not considered as a formal alliance in international legal provisions, it does indicate that the country in question “[...] agrees to pursue a stable, long-term cooperative relationship in the economic, scientific, technological, political, and cultural fields” (Snyder 2009: 499 –501). The list of European countries having strategic partnership relations with China are shown on Table 11 in *Annex VI*. The apparent linkage of such partnership with BRI participation of a European country is shown on Figure 21 and 22. The linkage between such strategic partnership with AIIB membership is shown on Figure 23.



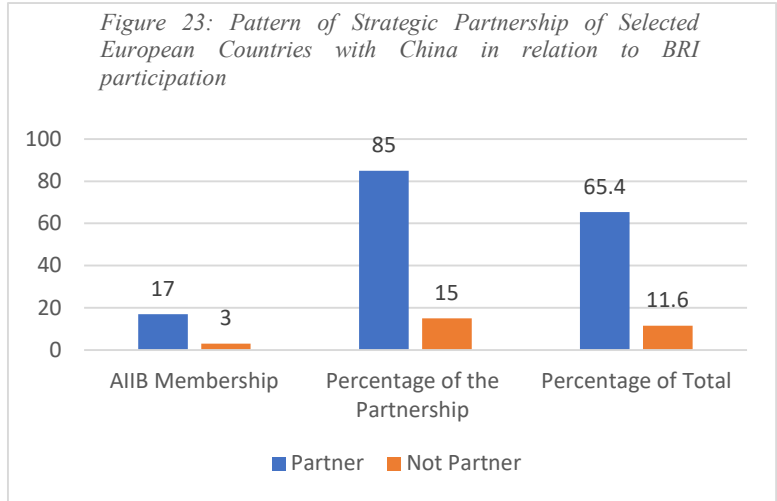
*Observations:* It may be observed from the graphs above that out of 40 selected European countries -

- i. 20 countries have strategic partnership with China (50%) whereas the other 20 do not.

<sup>9</sup> Data on European country’s strategic partnership with China have been collected from the article composed by Li, Q. and Ye, M (2019) and cross checked from the PRC Foreign Ministry website.



- ii. 11 countries among the 20 having strategic partnership with China (55%) have joined the BRI and 09 did not (45%). The percentage with the total is 27.5 and 22.5, respectively.
- iii. On the other hand, 17 (85%) out of 20 European strategic partner country of China has subscribed the AIIB Membership and 03 (15%) did not. The percentage with the total is 65.4 and 11.6, respectively.



*Significance:* Half of the selected European countries have strategic partnership with China. Yet, only a little over half of those strategic partners opted to join the BRI. But most of the European strategic partner country of China has subscribed the AIIB Membership. The 03 European strategic partner countries that did not subscribe the AIIB Membership are the Czech Republic, The Republic of Cyprus and Ukraine. It again supports the findings from Figure 17-20 that European countries with higher economic capacity primarily opt for the AIIB membership than the BRI.

The findings of the quantitative comparative analysis part will be summarized and discussed in combination with the following findings from the qualitative comparative case studies in chapter 06 of this thesis.

## 5.2 Qualitative Analysis: Comparative Case Studies

The small-N comparisons through case studies will primarily be concerned with policy positions of the selected countries and their implications over infrastructure investment in the case countries. The empirical investigations will therefore involve the gathering of evidence from both primary and secondary sources. As discussed in the methodology chapter of this thesis, I have selected five countries namely – Italy, Ireland, Greece, Portugal and Spain for the comparative case study on the same aspect that all these EU countries with high national income have been the official cases for facing severe adverse impact of the Eurozone debt

crisis. The crisis is briefly discussed in the following paragraphs before diving into the case studies to provide an outlook of the underlying circumstances.

The European Sovereign Debt Crisis is defined as the period initiated in 2008 when several European countries experienced in their own countries the collapse of financial institutions, high government debt and rapidly rising bond yield spreads in government securities. The crisis started with the collapse of Iceland's banking system, then spread primarily to the peripheral Eurozone member states of Portugal, Italy, Ireland, Greece, and Spain in 2009. By the end of 2009, these countries were unable to repay or refinance their government debt or bail out their beleaguered banks without the assistance of third-party financial institutions such as the European Central Bank (ECB), the International Monetary Fund (IMF) and European Commission together known as the “Troika” (Kenton, 2020). European nations implemented a series of financial support measures such as the European Financial Stability Facility (EFSF) in early 2010 and the European Stability Mechanism (ESM) in late 2010 which includes lowering interest rates, providing cheap loans of more than one trillion Euro in order to maintain money flows between European banks and free unlimited support for all Eurozone countries involved in a sovereign state bailout/precautionary programme (Technical features of Outright Monetary Transactions, *ECB Press Release*).

Countries receiving bailout funds were required to implement austerity measures as part of the loan agreements to slow down the public-sector debt growth. Due to excessive sovereign debt along with downgrading the debt status of several Eurozone countries to junk status by international credit rating agencies, lenders demanded higher interest rates from Eurozone states in 2010. Thus, high debt and deficit levels made it harder for these countries to finance their budget deficits due to overall low economic growth. Some affected countries raised taxes and cut expenditures to tackle the crisis (Kenton, 2020). The crisis has had significant adverse economic effects and labour market effects, with unemployment rates in Greece and Spain reaching 27% (*CBS News*, “Eurozone Unemployment at Record High in May”, 01 July 2013). The crisis was blamed for subdued economic growth not only for the Eurozone, but for the entire European Union (*ibid*). As a result, a major political impact occurred on the ruling governments in 10 out of 19 eurozone countries (Greece, Ireland, France, Italy, Portugal, Spain, Slovenia, Slovakia, Belgium and the Netherlands) caused by social upset within their borders (Kenton, 2020) contributing to power shifts. Such impact and power shift were also observed in the UK outside of the Eurozone (Casi, 2019).

Given the debt crisis circumstances, the five European countries (PIIGS) chose to join different Chinese investment schemes for additional funds in spite of receiving resources from the EU for infrastructural development in their key public installations. There are many scholarly articles on why these five countries opted for different Chinese investment instruments. In this study, I have focused only with two aspects that are in relation to the theoretical interest of this thesis- preservation or maximization of interest and external interaction with China.

### **5.2.1 Greece**

Greece is an EU member which has strategic partnership with China, subscribed AIIB membership and joined the BRI (Table 11). Greece is also a member of the China led “17+1” Platform (Table 12). The country started to face the Eurozone debt crisis in 2009 when the then Greek revealed that its previous government had grossly underreported its budget deficit, signifying a violation of EU policy and spurring fears of a euro collapse via political and financial contagion. Greece's debt was, at one point, moved to junk status (Kenton, 2020). Greece called for external help in early 2010, receiving an EU-IMF bailout package in May 2010 and second bailout in March 2012 (Copelovitch et al, 2016). Greece received the bailouts from the EU and IMF in exchange for the adoption of EU-mandated austerity measures to cut public spending and a significant increase in taxes. With the Eurozone assistance, Greece managed to partly regain market access in 2014 (ibid).

#### *Obvious Causes Shaping Preference*

Greece was severely hit by the 2008 global financial crisis with no positive response from the USA for assistance along with the strict financial cut off policies from the EU resources as imposed by its European partners. The EU austerity measures along with the continued economic recession, caused social unrest in Greece. With divided political and fiscal leadership, Greek citizens voted against a bailout and further EU austerity measures in 2015 facing sovereign default. This decision raised the possibility that Greece might leave the European Monetary Union (EMU) entirely (Kenton, 2020). In the end, Greece remained part of the EMU and began to slowly show signs of recovery in subsequent years. Unemployment dropped from its high of over 27% to the 16% in five years, while annual GDP when from negative numbers to a projected rate of over two percent in that same time (ibid).

The struggle for years with economic hardship led Greece privatize its strategic public assets. In this situation, Greece was eagerly looking for alternative sources for funding to gradually overcome the impacts of the financial crisis. The USA and European countries were suspicious that Russia may spread its sphere of influence over Greece to further create division within the EU. Instead, the gap was filled by China. The situation has been described by Costas Douzinas, a member of the Greek Parliament and a member of the ruling Syriza party as such, [...] “*While the Europeans are acting towards Greece like medieval leeches, the Chinese keep bringing money*” (Horowitz & Liz, 2017).

### Chinese Investment in Greece

The Chinese State-Owned Enterprise (SOE) - COSCO started investment in Piraeus since 2008 facing protest from union labour of Piraeus port (Liu & Davarinou, 2019). Now the Chinese SOE owns 51% share of the port operation authority. In addition, COSCO has shown interest in expanding investments to other large Greek ports and shipyards. Greece and China officially signed the Memorandum of Understanding for cooperation within the framework of the BRI on 27 August 2018. China also has investment commitment in Greece’s national rail system TRAINOSE for the construction of a railway connecting Piraeus to Western Europe. Furthermore, China has invested billions to upgrade both the Athens airport and the Cretan Airport to develop it to be the second largest in Greece. In tourism sector, the Chinese backed project ‘Hellenikon’ aims to bring an estimated of 1.5 million Chinese tourists to Greece within a five-year period (Martin, *China's Belt and Road Initiative in Greece*). In 2019, Greece and China signed a massive trade deal amounting to 2.5 billion Euro covering sixteen different trade sectors, including energy, agriculture, tourism, and ports (Guggenheim, 2019).

### Concluding Remarks

Greece particularly turned to China for funds to assure gradual economic recovery by privatizing strategic assets. The long interaction between Greece and China influenced it to finally sign the MoU for BRI in 2018.

### 5.2.2 Italy

Italy is an EU member and the first G-7 country to join the BRI. Italy also has strategic partnership with China along with membership in the AIIB (Table 10, 11). Italy has long diplomatic and economic relationship with China since the mid-1980s (Eijk & Gunavardana, 2019).

#### Obvious Causes Shaping Preference

Italy was seriously hit by the 2008 global financial crisis. In mid- 2016, the European debt crisis situation worsened for Italian banks due to poorly managed financial system. A full collapse of the Italian banks was deemed to be a bigger risk to the European economy than a Greek, Spanish or Portuguese collapse because Italy's economy is much larger. Almost 17% of Italian loans approximately USD 400 billion-worth, were then declared junk and the banks needed a significant bailout (Kenton, 2020).

Italy has repeatedly asked for help from the EU. But unlike the cases for other PIIGS countries, the EU then introduced "bail-in" rules that prohibit countries from bailing out financial institutions with taxpayer money without investors taking the first loss. Germany has been clear that the EU will not bend these rules for Italy (Kenton, 2020). There are arguments that with the US dismissal of both the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership and cornered by European allies on immigration and economic crises, Italy had no other choice but to turn to China for such investment (Bindi, 2019).

#### Chinese Investments in Italy

In spite of receiving fund for infrastructure development from the EU, Italy signed the Memorandum of Understanding on joining the BRI on 23 March 2019. It covers 29 other commercial and institutional agreements amounting to 2.5 billion Euro which include energy, finance and agricultural produce. The Memorandum allows reciprocal access of Italian energy and engineering companies as well as Chinese communications and infrastructure companies to the other country and using of the port of Trieste and Genoa. Thus, the port will be China's passage into central and Eastern Europe (Eijk & Gunavardana, 2019).

### Concluding Remarks

It can be mentioned that the interests to securing funds for gradual economic recovery and infrastructure development and unfavourable policies from the EU turned Italy to its long-term ally, China.

#### **5.2.3 Ireland**

Ireland is an EU member whose sovereign debt was downgraded to junk status during the debt crisis and the country received EU- IMF bailouts in November 2010. (Kenton, 2020). Improved structural deficits with economic growth enabled Ireland to exit its bailout programmes in July 2014 (Copelovitch et al, 2016). Ireland's proximity to the UK, its open economy and post-Brexit being the only English-speaking country in the EU (except Malta) have put the country on the radar of Chinese interest (Godfrey, 2019).

#### Ireland- China Economic Relations

Ireland's priority sectors for trade with China include agriculture particularly beef and dairy products, education, financial services, culture, technology, tourism and aircraft leasing. It is one of the few EU countries to have trade surplus with China. Bilateral trade between Ireland and China is worth over 08 billion Euro each year which rose to 13 billion Euro in 2018. Chinese FDI into Ireland was increased by 128 million Euro total reaching to 8.1 billion in 2019 (Taylor, 2019).

Major Chinese investments in Ireland include the Chinese biopharmaceutical company WuXi Biologics and WuXi Vaccines building a plant in Dundalk worth of 541 million Euro; Bank of China taking over Goodbody Stockbrokers with an initial 150 million Euro; Chinese Huawei company investing 70 million Euro in research and development locally with an Irish subsidiary "Aspiegel"; State-run Ireland Strategic Investment Fund (ISIF) joining with CIC Capital Corporation for a 150 million Euro technology investment fund; Gaelectric selling 14 Irish wind farms worth an estimated 400 million Euro to China General Nuclear Power; Chinese HNA group acquiring Dublin-based aircraft lessor Avolon in 2.25 billion Euro deal (Taylor, 2019).

Irish beef exports are allowed into China from 2018, Direct flights to Ireland from China has also initiated. The Central Bank of Ireland issued clearance in 2015 for Irish funds to access Shanghai, Shenzhen and Hong Kong stock markets, and the bank's approval of the mutual bond market access programme allows Irish investors to access the Mainland China Interbank Bond Market (Godfrey, 2019).

### *Irish Preference Towards Chinese Investments*

Ireland has strategic partnership with China since 2013 (*Ireland-China Relations*, Embassy of Ireland in China). The country is also an AIIB member. But the country is not a signatory of the BRI (Table 11) which is considered as a good gesture to preserve the Republic's interest with the USA. The country received nearly 67 per cent of its total inward FDI from the US in 2018. Yet, Chinese investment in the country is increasing as China is pulling out its investment from the USA and reinvesting them in Ireland as a consequence of US-China trade war (Taylor, 2019).

### *Concluding Remarks*

With sufficient assistance from the EU and large inward FDI from the USA, Ireland has little incentive to join the BRI. However, it subscribed the China led AIIB membership that adheres to international rules.

#### **5.2.4 Portugal**

Portugal is also an EU member that has strategic partnership with China, subscribed AIIB membership and decided to join the BRI in late 2018 (Table 11). Portugal was the only state in Western Europe to join the BRI when only a few central and eastern European states had decided to join the Chinese Initiative (*OBOReuropa*, "Portugal, the Atlantic Coast of the Belt and Road Initiative", 12 December 2018). During the European Debt Crisis, the country had their sovereign debt downgraded to junk status by international credit rating agencies (Kenton, 2020). Portugal received EU- IMF bailouts in May 2011 and gradually exited their bailout programmes in July 2014 (Copelovitch et al, 2016).

### Obvious Causes Shaping Preference

To attain help from the European side while facing the debt crisis, Portugal had to comply with the conditions imposed by the "Troika," Portuguese MEP Ana Gomes claims that “ [...] *The Troika has literally pushed Portugal into the Chinese arms*” (Faget, 2019). During the debt crisis, Beijing came to Lisbon's rescue. China bought not only Portuguese government bonds which nobody else wanted to buy at the time but also secured a powerful position by taking over Portuguese companies. Such ventures brought economic advantages to Portugal and at the same time, secured great Chinese influence over the country's policy making. Over the past several years, Portugal has emerged as one of the staunchest supporters of Chinese investment in Europe. As Professor João Duque of the ISEG Business School in Lisbon describes, “[...] *that's why Portugal can't take any position against China's expansion policy*” (ibid).

### Chinese Investment in Portugal

Chinese investment has been directed to all major economic sectors of Portugal, from finance to health. The major BRI projects insights are the Port of Sines new container terminal investment amounting to USD 300 million in the first phase and USD 650 million in the second phase, the railway link between the Port of Sines, Setúbal and Lisbon to Badajoz in Spain and the airport of Montijo (*Belt & Road News*, Chinese Construction Companies Set Sights on Portugal, 05 October 2019). In addition, China Construction Third Engineering Bureau Group (CCTEBG) agreed to buy 50 per cent of the Portuguese subsidiary TDE Real Estate Developments for EUR 31.1 million. Chinese Fosun group has subscribed major share of the Portuguese bank BCP. Furthermore, the Portuguese bank Caixa plans to launch a yuan-denominated bond in partnership with the Bank of China (ibid). As per the Portuguese privatisation policy induced by the debt crisis, Chinese groups have purchased the previously state-owned power grid operator REN and the nation's largest insurance company (Faget, 2019). Chinese companies also control several small electricity suppliers in Portugal. The Chinese Three Gorges group is interested to increase its participation in the Portuguese group EDP though not successful for US objections as EDP operates in the USA as well (ibid).

### Concluding Remarks

Portugal welcomed Chinese investment schemes for funds to assure gradual economic recovery by privatizing strategic assets just like Greece. Portugal is considered to play a key role between



Brussels and Beijing for the possible articulation between the European plan of “Europe-Asian Connectivity Strategy” and the BRI (*OBOReurope*, *ibid*, 12 December 2018).

### **5.2.5 Spain**

Spain is the fourth largest economy in the Eurozone and a permanent participant in the G-20. Though hit by the European Debt Crisis, the country never officially received a bailout programme. Spain received its rescue package from the ESM in June 2012 which was earmarked for a bank recapitalisation fund and did not include financial support for the government itself (Copelovitch et al, 2016). The situation in Spain had improved by 2014 (Kenton, 2020). The country is termed as the “best friend of China in Europe” (Ortega, 2019). It has strategic partnership with China and is a founding member of the AIIB. But Spain has not yet formally committed to the BRI (Table 11).

#### *Spain- China Economic Relations*

China purchased about 12 percent of the Spanish debt during the European Debt Crisis and became Spain’s second-largest international creditor. Spain ranks seventh (or ninth as per other sources) for Chinese investment destinations within the European Union for 2000-2018 (Ortega, 2019). In 2017, Chinese COSCO Shipping invested 203 million Euro to control 51% of the largest container terminal in Valencia Port, Spain. In addition, the Chinese SOE Three Gorges Corporation has acquired a major stake in “Energias de Portugal” which is closely interlinked with the electricity and gas market in Spain and the “Madrileña Red de Gas”, Madrid’s gas network (*ibid*).

Spanish trade with China represented 73 percent of the total trade deficit in 2017. Imports by Spain from China rose to 26.9 billion Euros in 2018 compared with 6.2 billion Euros of exports in 2017 (*ibid*). Spain’s top four export items to China include automotive equipment and accessories, plastic raw material and industrial products, pharma-chemistry, and semi-finished copper goods. On the other hand, the top four Chinese export items to Spain include women’s wear, telecommunications equipment, computer hardware and footwear (Esteban, 2016).

### Spanish Preference towards Chinese Investment Instruments

Spain combines a soft approach inside the EU on political issues that benefit Chinese interests, such as lifting the arms embargo with a demanding position on economic matters as a bargaining strategy in its economic engagement with China. As a result, Spain is often termed as an “accommodating mercantilist” and severely criticized for providing political gains to China but no economic gains for Europe (ibid).

Spain declined to join the BRI due to concerns in the EU as well as strong influence from the USA over the Chinese lack of guarantees of investment transparency, economic and environmental viability of BRI projects and the excessive debt incurring in beneficiary countries. Spanish government, while encouraging greater Chinese investment, supports greater strategic scrutiny or review by the European Union. The country also officially supports the EU position against Chinese human rights abuse on the Uyghurs in Xinxiang and the soft communique of the EU on Hong Kong protests situation (Ortega, 2019).

### Concluding Remarks

As Spain was in better economic condition during the Debt Crisis compared to other PIIGS states and it adheres highly with established EU norms, it refrained from joining the BRI. But, to maximize its investment incentives, the country opted for AIIB membership influenced by its long friendship with China despite US dissenting.

#### 5.2.6 General Conclusion to Case Studies

The selected case studies, it can be mentioned that the countries which were less hit by the Debt Crisis and received adequate funds from the EU as well as the USA were not interested to join the BRI for further Chinese funding. But, as all of the PIIGS countries have strategic partnership with China and significant bilateral economic interactions, they all chose to subscribe the AIIB membership within the established international norms to safely preserve self-interest.

## *Chapter 06: Overall Findings and Implications*

The main objective of this thesis is to identify the impact of institutional factors that causes divergent preferential treatment by the European countries for Chinese investments. In this chapter, I have provided an overview of the findings derived from the analysis part of this thesis combining both the quantitative and qualitative outcomes tested them through the deduced hypotheses in relation to the theoretical interest ultimately leading to answer the main research question. There is also a following section that incorporates the implications of the outcomes in relation to the state actors, the EU and China.

### *6.1 Findings*

The first hypothesis of this study prioritizes the impact of interest maximization by individual state actors for preferring one institute over another. This prediction is further supplemented by the second hypothesis which adds the impact of constraints to interest maximization on certain state actors in the existing institute to look for another. From the findings derived from the quantitative as well as qualitative analysis, it has been observed that the EU members and EU partner states have highly responded to the Chinese investment instruments- both the BRI and the AIIB without consolidating a common approach with the main EU institutions. As Chaban (2013: 441) describes, [...] “*countries comprising the EU have mutual, as well as competing interests in the EU*”. Countries with stronger economy opted to join the AIIB to expand their investment interest in Asia. Most of the AIIB membership subscribing EU members were members of the ADB (Table 13, *Annex VIII*) for long where the EU institutional representation was coordinated and ensured. This establishes the interest of those countries to further their economy in Asia utilizing multiple platforms. Whereas countries with smaller economy choose to join the BRI to attract Chinese investment in their own country-to fulfil their interest of infrastructure development.

The third hypothesis refers that existing institutions adopt policies based on socially embedded norms which in turn as per the fourth hypothesis, may be deemed as constraining for certain state actors leading them to search for alternatives suitable for them. As Italy points out, relatively smaller economies in the EU and EU partner countries are unable to benefit from the EU- China trade policies due to competition with larger EU economies (Eijk & Gunavardana, 2019). As a result, EU members along with EU partner countries in Europe who have smaller economy are unable to support their large scale infrastructure and financial sector

investment on their own and therefore they hope to avoid project preparation for the EU with strict conditions and longer implementation period by choosing Chinese “*no strings attached*” investment schemes (Żukrowska, 2017). On the other hand, Chinese investment instrument in the form of AIIB provides the chance to its partners to be generous financiers when Chinese capital falls short. Whereas countries that cannot subscribe AIIB membership would become prospective borrowers through the BRI (Chen, 2018: 312). These findings completely satisfy the rational choice perspectives.

The fifth hypothesis deduced from sociological institutional perspective point that in case of looking for alternative institutions for additional resources, state actors will turn to those actors with whom they have practised long interactive relations. In addition, the sixth hypothesis proposes that if such new institution is developed, state actors will attempt to change policies in the existing institution to accommodate the interest of the new institution. Findings of this study establish these assumptions that EU members and EU partner countries are accommodating different Chinese investment instruments largely based on the degree of their bilateral relations with China. Participation of EU members and EU partner countries are even influencing EU policy process. Observations from the scholarly works reveal that the AIIB membership for EU members are not criticized due to the AIIB adherence to international rules and norms just like ADB. But, the BRI participation on the other hand is deemed a potential risk for the EU internal unity because of the Chinese influential interaction as evidenced with the case of Czech Republic, Greece and Hungary who have blocked an EU resolution to criticize China for its human rights abuse (Gaen, 2018). Scholars point that Chinese values disseminating an alternative authoritarian model is directly in collision with the established European norms of multilateralism (Bohman & Ljungwall, 2018). The interest maximization of such countries through the BRI and shaping policies to preserve the interest of their Chinese ally directly conforms to the rational choice and sociological institutionalism, respectively.

In brief, the outcomes of the analysis consequently prove the theoretical considerations of both the rational choice and sociological institutionalism and answer the research question of this study. That is, European countries preference policies towards Chinese investment instruments are driven by two distinct institutional factors- maximization of state interest for additional resources influenced by the external interaction with China in geo-economic aspects.

## 6.2 Implications

EU members as well as other countries consent to join the BRI through signing MoUs with China. In legal aspects, the Memorandum is a non-binding statement of intent without creating rights and obligations under international law such as a treaty. (Eijk & Gunavardana, 2019). Though these MoUs declare Chinese investment in infrastructures which is the shared competence of the EU members, the contents of such MoUs as evident from that of Italy contain provisions of trade and direct investment between the participating countries. As trade policy and third country foreign direct invest (both inward and outward) fall within the scope of EU exclusive competence<sup>10</sup>, these inclusions are directly in violation of the EU law and therefore have seriously damaged the coherence of the EU as a unitary major economic power.

At the same time, as per Article 4 (3) of the TEU, the EU members are bound on the “*Duty of Sincere Cooperation*” that refrain any such activity hampering the attainment of EU objectives (ibid). The lack of a common EU policy at the first place for coordination on Chinese investment instruments provided China a political grip empowering to influence and even block EU policies (Brattberg, Soula, 2018). It has rendered weakening the perception of the EU as a unified global actor. Harting (2018) argues that, “*It depends on how you define the word global actor. If it’s about defending global ideas and being present on the global scene, then the European Union is indeed a global actor.*” Yet, EU is regarded as a great power with high leadership potential, but only in economic affairs. As Elgström addresses in the WTO, “*EU is regarded as a potential leader, which, however, does not lead.*” (Lucarelli, 2014:8). The new EU Strategy governing engagement with external actors in Asia including China is at an early stage at the EU level, and further legal framework to support the coordination of TEN-T and BRI policy is required (Dunmore et al, 2019:17).

In case of EU partner countries in Europe advancing towards EU membership, quicker and easier financing alternatives of BRI before EU accession may lead to non/slow implementation of required EU conditionalities for sustainable development to be at par with existing members. Consequently, the EU’s legislative correspondence and even the EU unity itself may be displaced (Barisitz & Radzyne, 2018).

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<sup>10</sup> ECJ Ruling Case C-414/11.

The Chinese investment through BRI in the first major port of EU, Piraeus in Greece and next major ports at Trieste and Genoa in Italy along with connecting the Adriatic port of Bar in Montenegro (Dunmore et al 2019: 06) establishes the pattern for Chinese intention of uninterrupted market access to the European mainland. Acquisition of strategic assets through the “debt-trap diplomacy” by China such as Sri Lankan Hambantota port seems to be successful in the short term (Eijk & Gunavardana, 2019). Same situation exist in case of Montenegro. An estimated 1.3billion Euro Chinese loan to this EU partner country for construction of the road linking the Adriatic port of Bar to Serbia’s capital Belgrade has put its debt soaring from 63 per cent of GDP to almost 80 per cent in 2018 The terms of the borrowing contract provide China the right to access Montenegrin land as collateral (Hopkins and Kynge, 2019). But China, the “factory of the world”, will regain profit maximization only if the investment destination has well-developed infrastructure with a market that has both demand and purchasing capacity rather than cash strapped (Żukrowska, 2017). Examples of Pakistan and Malaysia cancelling various BRI projects due to inability to repay debts raise alarm for China (Eijk & Gunavardana, 2019).

Müller (2016:6) identifies that [...] “*China is increasingly approaching the complexity of further economic reforms to stimulate high growth followed by changes in the Chinese society moving towards a more consumer-oriented model*”. Hence, from the sociological institutional perspective, the new EU Strategy is an immense opportunity for China to acquaint itself with the EU regulations of competition, intellectual property, labour rights, health security, consumer protection and environment comprehensively defined as the “European Way”. At the same time, the Strategy calls for reforms of industrial subsidies and policies within the framework of the WTO thus leading to establishing a level playing field for businesses in the Eurasian region.

In this respect, the EU Strategy needs to be developed as a full-fledged legal instrument- both through positive and negative integration. The positive integration dictates that the EEAS and likeminded major EU members such as France and Germany can turn the Strategy effectively as a detailed and valid legal document to make it binding and supersede national legislations through the consensus driven mechanism (QMV) in CFSP. In addition, to protect and ensure the exclusive competence in trade and direct investment, the European Court of Justice (ECJ) can intervene thereby ensuring negative integration (Scharpf, 2010:10). No EU member or EU partner state potentially risks the infringement on the access to the European single market due

to EU law violation (ibid). Thus, the successful enactment and enforcement of the new EU Strategy will mitigate the internal division and establish the EU as a viable leading actor with a unified position in the global marketplace.

## *Chapter 07: Conclusions and Recommendations*

This thesis started with the goal of identifying the institutional causal factors influencing the external preferences of the European countries towards Chinese investment instruments- the Belt and Road Initiative and the Asian Infrastructure Investment Bank. The study was developed on the theoretical aspects of institutionalism of interest and interaction based on established social norms and values. As the study advances its course to explore the stated goal through comparative analysis of the factors involved, it identifies that the interests of the actors (countries in this case) that participate within the EU single market and thereby are influential in the EU policy making differ on various aspects of socio-economic aspects leading to divergence in their preference. The difference in the form of access to and utilization of resources is not of an out of the blue phenomena. Interest maximization of the actors either by joining the Chinese investment instrument of BRI or the AIIB without consolidated approach from the EU pose a serious threat to the external perception of the EU as a coherently unified global economic leader. Such intra- European division and non-consolidation with the main EU institutions due to interest of incentives can cause precedents if not mitigated immediately. Not only China but any external actor thus can exert influence through developing alternate authoritarian norms that will endanger the established integrity through and elongated and hectic path of Europeanization.

The EU cannot remain ambivalent in the increasingly changing world politics with rising geo-economic competitions. The newly launched official Euro-Asian Connectivity Strategy of the EU has the prospect and capacity to further integrate the EU members and EU partners on a common platform while accommodating not only the Chinese investment instruments but also cooperation and investment mechanisms initiated by any other external actor. For that to happen, the EU must use its key role as a strategic distribution centre for common policies by political endorsement and enactment of the new strategy. The path is not easy through positive integration in a normative manner given the existing internal division. The ECJ can make an effort through negative integration in this aspect. The EU and its partners need to be strict on a united stand to make sure that they will accommodate the Chinese investment schemes within the European common market if only they (Chinese instruments) adhere to transparency, equal say of stakeholders, environmental and labour standards. Given the combined shares and voting powers of European countries in the AIIB are nearly to China, the task is easy if the positions of the European countries are concerted as per the Article 19 of the TEU.



At the same time, the new EU Strategy provides a unique opportunity for China as well as the country follows the European model of social democracy and the welfare state as guiding principles in order to fulfil the goal of attaining the “Chinese Dream” to become a great nation with stability, prosperity and harmony (Bustillo & Andoni, 2018: 2).

In addition, as this thesis identifies, there are needs for further studies on the scope of how to accommodate the opportunities of Chinese BRI within the official EU institutional framework and also a separate research on how to increase the prospects of resource mobilization derived from the European common market of trade and investment for both the EU members and EU partner states with smaller economy. Given the instabilities that Brexit may trigger, and the emerging global economic impact of the COVID-19 outbreak as possible difficulties to overcome, such studies are deemed to be highly in need now.

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The joining of a European country in the BRI is identified as 1 in all of the following tables below where no participation is referred to as 0.

Table 06: Participation of Selected European Countries in the BRI

Sl. No.	Country Name	BRI Participation Agreement through MoU	GDP	GNI Per Capita (Atlas method-current USD)	National Income Level
1	Albania	1	15.10	4,860	Upper-middle income
2	Austria	1	455.29	49,130	High income
3	Belgium	0	542.76	45,910	High income
4	Bosnia & Herzegovina	1	20.16	5,740	Upper-middle income
5	Bulgaria	1	65.13	8,860	Upper-middle income
6	Croatia	1	60.97	14,000	High income
7	Republic of Cyprus	1	24.96	26,300	High income
8	Czech Republic	1	245.23	20,240	High income
9	Denmark	0	355.68	60,140	High income
10	Estonia	1	30.73	21,140	High income
11	Finland	0	276.74	48,280	High income
12	France	0	2,777.54	41,080	High income
13	Germany	0	3,947.62	47,090	High income
14	Georgia	1	17.60	4,440	Upper-middle income
15	Greece	1	218.03	19,770	High income
16	Hungary	1	157.88	14,780	High income
17	Iceland	0	25.88	67,960	High income
18	Ireland	0	382.49	61,390	High income
19	Italy	1	2,083.86	33,730	High income
20	Kosovo	0	7.94	4,220	Upper-middle income
21	Latvia	1	34.41	16,510	High income
22	Lithuania	1	53.43	17,430	High income
23	Luxembourg	1	70.89	70,870	High income
24	Malta	1	14.55	26,480	High income
25	Moldova	1	11.44	2,980	Lower-middle income
26	Montenegro	1	5.50	8,430	High income
27	Netherlands	0	913.66	51,260	High income
28	North Macedonia	1	12.67	5,450	Upper-middle income
29	Norway	0	434.17	80,610	High income
30	Poland	1	585.66	14,100	High income
31	Portugal	1	240.67	21,990	High income
32	Romania	1	239.55	11,290	High income
33	Serbia	1	50.60	6,390	Upper-middle income
34	Slovakia	1	105.90	18,260	High income
35	Slovenia	1	54.01	24,580	High income
36	Spain	0	1,419.04	29,340	High income

37	Sweden	0	556.09	55,490	High income
38	Switzerland	0	705.14	84,410	High income
39	UK	0	2,855.30	41,770	High income
40	Ukraine	1	130.83	2,660	Lower-middle income
Total	40	26			

Table 07: Outward FDI Stock of Selected European Countries in China, Whole Asia (without China) and the World

Sl. No.	Country Name	BRI Membership	FDI Stock in China (Billion USD)	FDI Stock in Asia (Without China, Billion USD)	Total FDI Stock- World (Billion USD)	GDP (Billion USD)	GNI Per Capita (Atlas method-current USD)	National Income Level
1	Albania	1	0	0	0.64	15.10	4,860	Upper-middle income
2	Austria	1	4.19	7.73	301.81	455.29	49,130	High income
3	Belgium	0	2.16	14.64	821.75	542.76	45,910	High income
4	Bosnia & Herzegovina	1	0	0	0.62	20.16	5,740	Upper-middle income
5	Bulgaria	1	0.08	0.08	1.93	65.13	8,860	Upper-middle income
6	Croatia	1	0.01	0.01	3.73	60.97	14,000	High income
7	Republic of Cyprus	1	0.36	10.01	436.85	24.96	26,300	High income
8	Czech Republic	1	0.42	0.25	34.91	245.23	20,240	High income
9	Denmark	0	4.19	25.06	222.16	355.68	60,140	High income
10	Estonia	1	0	0.07	7.92	30.73	21,140	High income
11	Finland	0	0.33	4.26	127.88	276.74	48,280	High income
12	France	0	24.02	88.89	1507.93	2,777.54	41,080	High income
13	Germany	0	87.76	93.3	1643.7	3,947.62	47,090	High income
14	Georgia	1	0	0.1	0.41	17.60	4,440	Upper-middle income
15	Greece	1	0.02	2.22	19.56	218.03	19,770	High income
16	Hungary	1	0.06	4.44	118.43	157.88	14,780	High income
17	Iceland	0	0.06	0.2	5.65	25.88	67,960	High income
18	Ireland	0	6.58	7.98	1187.12	382.49	61,390	High income
19	Italy	1	11.81	23.41	554.3	2,083.86	33,730	High income
20	Kosovo	0	0.01	0	0.4	7.94	4,220	Upper-middle income

21	<b>Latvia</b>	1	0	0.09	2.79	34.41	16,510	High income
22	<b>Lithuania</b>	1	0.07	0.02	4.64	53.43	17,430	High income
23	<b>Luxembourg</b>	1	11.22	111.57	4603.14	70.89	70,870	High income
24	<b>Malta</b>	1	0.08	10.89	69.79	14.55	26,480	High income
25	<b>Moldova</b>	1	0	0.01	0.33	11.44	2,980	Lower-middle income
26	<b>Montenegro</b>	1	0	0	0.8	5.50	8,430	High income
27	<b>Netherlands</b>	0	34.69	384.63	5755.62	913.66	51,260	High income
28	<b>North Macedonia</b>	1	0	0.51	1.07	12.67	5,450	Upper-middle income
29	<b>Norway</b>	0	0.97	17.4	201.73	434.17	80,610	High income
30	<b>Poland</b>	1	0.25	0.67	24.6	585.66	14,100	High income
31	<b>Portugal</b>	1	0.1	1.54	62.02	240.67	21,990	High income
32	<b>Romania</b>	1	0.08	0.13	1.13	239.55	11,290	High income
33	<b>Serbia</b>	1	0	0.01	3.82	50.60	6,390	Upper-middle income
34	<b>Slovakia</b>	1	0.06	0.03	7.94	105.90	18,260	High income
35	<b>Slovenia</b>	1	0.07	0.04	6.94	54.01	24,580	High income
36	<b>Spain</b>	0	3.57	10.09	578.29	1,419.04	29,340	High income
37	<b>Sweden</b>	0	11.81	16.72	374.57	556.09	55,490	High income
38	<b>Switzerland</b>	0	23.29	118.27	1494.72	705.14	84,410	High income
39	<b>UK</b>	0	22.84	344.82	2873.18	2,855.30	41,770	High income
40	<b>Ukraine</b>	1	0.05	0.08	4.05	130.83	2,660	Lower-middle income



Table 08: Inward FDI Flow of Selected European Countries from China and the World

Sl. No.	Country Name	BRI Membership	AIB Membership	Inward FDI from China (Billion USD)	Inward FDI from the World	GDP	GNI Per Capita (Atlas method-current USD)	National Income Level
1	Albania	1	0	0.006	7.833	15.10	4,860	Upper-middle income
2	Austria	1	1	1.885	262.498	455.29	49,130	High income
3	Belgium	0	1	3.568	612.783	542.76	45,910	High income
4	Bosnia & Herzegovina	1	0	0.005	8.372	20.16	5,740	Upper-middle income
5	Bulgaria	1	0	0.196	49.038	65.13	8,860	Upper-middle income
6	Croatia	1	1	0.093	28.21	60.97	14,000	High income
7	Republic of Cyprus	1	1	1.178	428.427	24.96	26,300	High income
8	Czech Republic	1	0	0.754	163.155	245.23	20,240	High income
9	Denmark	0	1	1.383	139.745	355.68	60,140	High income
10	Estonia	1	0	0.114	24.829	30.73	21,140	High income
11	Finland	0	1	0.261	78.599	276.74	48,280	High income
12	France	0	1	9.855	893.266	2,777.54	41,080	High income
13	Germany	0	1	14.964	1052.622	3,947.62	47,090	High income
14	Georgia	1	1	0.722	18.258	17.60	4,440	Upper-middle income
15	Greece	1	1	1.009	34.853	218.03	19,770	High income
16	Hungary	1	1	1.206	177.299	157.88	14,780	High income
17	Iceland	0	1	0.036	9.522	25.88	67,960	High income
18	Ireland	0	1	7.558	1687.689	382.49	61,390	High income

19	Italy	1	1	2.012	513.172	2,083.86	33,730	High income
20	Kosovo	0	0	0.012	4.227	7.94	4,220	Upper-middle income
21	Latvia	1	0	0.073	17.411	34.41	16,510	High income
22	Lithuania	1	0	0.688	19.501	53.43	17,430	High income
23	Luxembourg	1	1	101.773	2381.463	70.89	70,870	High income
24	Malta	1	1	0.95	206.13	14.55	26,480	High income
25	Moldova	1	0	0.002	3.7	11.44	2,980	Lower-middle income
26	Montenegro	1	0	0.059	5.297	5.50	8,430	High income
27	Netherlands	0	1	80.333	4715.201	913.66	51,260	High income
28	North Macedonia	1	0	0.152	6.079	12.67	5,450	Upper-middle income
29	Norway	0	1	1.085	140.019	434.17	80,610	High income
30	Poland	1	1	0.717	228.522	585.66	14,100	High income
31	Portugal	1	1	3.558	155.913	240.67	21,990	High income
32	Romania	1	1	0.221	92.879	239.55	11,290	High income
33	Serbia	1	1	1.129	39.8	50.60	6,390	Upper-middle income
34	Slovakia	1	0	0.114	58.444	105.90	18,260	High income
35	Slovenia	1	0	0.042	17.349	54.01	24,580	High income
36	Spain	0	1	3.75	721.909	1,419.04	29,340	High income
37	Sweden	0	1	9.059	352.413	556.09	55,490	High income
38	Switzerland	0	1	5.154	1475.697	705.14	84,410	High income
39	UK	0	1	32.331	3403.581	2,855.30	41,770	High income
40	Ukraine	1	0	0.125	29.394	130.83	2,660	Lower-middle income

Table 09: Export of Selected European Countries to China, Whole Asia (without China) and the World

Sl. No.	Country Name	BRI Membership	Export to China	Total Export to Asia (Without China)	Total Export-World	GDP	GNI Per Capita (Atlas method-current USD)	National Income Level
1	Albania	1	0.05	0.02	2.88	15.10	4,860	Upper-middle income
2	Austria	1	4.78	8.65	176.99	455.29	49,130	High income
3	Belgium	0	8.22	24.93	468.64	542.76	45,910	High income
4	Bosnia & Herzegovina	1	0.02	0.05	7.18	20.16	5,740	Upper-middle income
5	Bulgaria	1	0.9	1.01	33.79	65.13	8,860	Upper-middle income
6	Croatia	1	0.16	0.32	17.21	60.97	14,000	High income
7	Republic of Cyprus	1	0.11	0.55	8.26	24.96	26,300	High income
8	Czech Republic	1	2.58	4.54	202.52	245.23	20,240	High income
9	Denmark	0	3.16	5.84	108.56	355.68	60,140	High income
10	Estonia	1	0.22	0.77	17.87	30.73	21,140	High income
11	Finland	0	4.1	5.05	75.26	276.74	48,280	High income
12	France	0	24.62	51.94	574.23	2,777.54	41,080	High income
13	Germany	0	110.45	116.52	1562.42	3,947.62	47,090	High income
14	Georgia	1	0.21	0.51	4.49	17.60	4,440	Upper-middle income
15	Greece	1	1.06	1.59	39.49	218.03	19,770	High income
16	Hungary	1	2.37	3.03	123.96	157.88	14,780	High income
17	Iceland	0	0.14	0.21	5.56	25.88	67,960	High income
18	Ireland	0	5.54	9.33	167.12	382.49	61,390	High income
19	Italy	1	16.51	10.64	573.76	2,083.86	33,730	High income
20	Kosovo	0	0.01	0.04	0.43	7.94	4,220	Upper-middle income
21	Latvia	1	0.19	0.48	15.06	34.41	16,510	High income
22	Lithuania	1	0.22	1.94	33.33	53.43	17,430	High income

23	Luxembourg	1	0.25	0.39	15.2	70.89	70,870	High income
24	Malta	1	0.04	0.6	3.87	14.55	26,480	High income
25	Moldova	1	0.02	0.03	3.56	11.44	2,980	Lower-middle income
26	Montenegro	1	0.02	0	0.47	5.50	8,430	High income
27	Netherlands	0	13.47	34.09	555.92	913.66	51,260	High income
28	North Macedonia	1	0.07	0.05	6.91	12.67	5,450	Upper-middle income
29	Norway	0	2.58	5.31	122.64	434.17	80,610	High income
30	Poland	1	2.5	5.33	261.82	585.66	14,100	High income
31	Portugal	1	0.85	1.14	74.14	240.67	21,990	High income
32	Romania	1	0.88	1.41	80.08	239.55	11,290	High income
33	Serbia	1	0.09	0.27	19.24	50.60	6,390	Upper-middle income
34	Slovakia	1	1.61	0.84	93.44	105.90	18,260	High income
35	Slovenia	1	0.36	0.84	36.47	54.01	24,580	High income
36	Spain	0	7.39	13.64	328.53	1,419.04	29,340	High income
37	Sweden	0	7.68	9.66	165.96	556.09	55,490	High income
38	Switzerland	0	30.26	63.65	310.52	705.14	84,410	High income
39	UK	0	27.7	50.8	490.84	2,855.30	41,770	High income
40	Ukraine	1	2.2	5.75	47.33	130.83	2,660	Lower-middle income

Table 10: Linkage Between AIIB Membership, BRI Participation and National Income of the Selected European Countries.

Sl. No.	Country Name	BRI Membership	AIIB Membership	GDP	National Income Level
1	Albania	1	0	15.10	Upper-middle income
2	Austria	1	1	455.29	High income
3	Belgium	0	1	542.76	High income
4	Bosnia & Herzegovina	1	0	20.16	Upper-middle income
5	Bulgaria	1	0	65.13	Upper-middle income
6	Croatia	1	1	60.97	High income
7	Republic of Cyprus	1	1	24.96	High income
8	Czech Republic	1	0	245.23	High income
9	Denmark	0	1	355.68	High income
10	Estonia	1	0	30.73	High income
11	Finland	0	1	276.74	High income
12	France	0	1	2,777.54	High income
13	Germany	0	1	3,947.62	High income
14	Georgia	1	1	17.60	Upper-middle income
15	Greece	1	1	218.03	High income
16	Hungary	1	1	157.88	High income
17	Iceland	0	1	25.88	High income
18	Ireland	0	1	382.49	High income
19	Italy	1	1	2,083.86	High income
20	Kosovo	0	0	7.94	Upper-middle income
21	Latvia	1	0	34.41	High income
22	Lithuania	1	0	53.43	High income
23	Luxembourg	1	1	70.89	High income
24	Malta	1	1	14.55	High income
25	Moldova	1	0	11.44	Lower-middle income
26	Montenegro	1	0	5.50	High income
27	Netherlands	0	1	913.66	High income
28	North Macedonia	1	0	12.67	Upper-middle income
29	Norway	0	1	434.17	High income
30	Poland	1	1	585.66	High income
31	Portugal	1	1	240.67	High income
32	Romania	1	1	239.55	High income
33	Serbia	1	1	50.60	Upper-middle income
34	Slovakia	1	0	105.90	High income
35	Slovenia	1	0	54.01	High income
36	Spain	0	1	1,419.04	High income
37	Sweden	0	1	556.09	High income
38	Switzerland	0	1	705.14	High income
39	UK	0	1	2,855.30	High income
40	Ukraine	1	0	130.83	Lower-middle income
Total	40	26	26		

Table 11: AIIB Membership and BRI Participation vis-à-vis Strategic partnership with China

Sl. No.	Country Name	AIIB Membership	BRI Participation	Strategic Partnership with China
1	Albania	0	1	0
2	Austria	1	1	0
3	Belgium	1	0	1
4	Bosnia & Herzegovina	0	1	0
5	Bulgaria	0	1	1
6	Croatia	1	1	1
7	Republic of Cyprus	1	1	0
8	Czech Republic	0	1	1
9	Denmark	1	0	1
10	Estonia	0	1	0
11	Finland	1	0	0
12	France	1	0	1
13	Germany	1	0	1
14	Georgia	1	1	0
15	Greece	1	1	1
16	Hungary	1	1	1
17	Iceland	1	0	0
18	Ireland	1	0	1
19	Italy	1	1	1
20	Kosovo	0	0	0
21	Latvia	0	1	0
22	Lithuania	0	1	0
23	Luxembourg	1	1	0
24	Malta	1	1	0
25	Moldova	0	1	0
26	Montenegro	0	1	0
27	Netherlands	1	0	1
28	North Macedonia	0	1	0
29	Norway	1	0	0
30	Poland	1	1	1
31	Portugal	1	1	1
32	Romania	1	1	1
33	Serbia	1	1	1
34	Slovakia	0	1	0
35	Slovenia	0	1	0
36	Spain	1	0	1
37	Sweden	1	0	0
38	Switzerland	1	0	1
39	UK	1	0	1
40	Ukraine	0	1	1
Total	40	26	26	20

Table 12: “17+1” Platform Countries

<i>Sl.</i>	<i>European Member Country</i>	<i>Region</i>
1	Albania	Southeast Europe
2	Bosnia and Herzegovina	South and Southeast Europe
3	Bulgaria	South-eastern Europe
4	Croatia	Southeast Europe
5	Czech Republic	Central Europe
6	Estonia	Northern Europe
7	Greece	Southeast Europe
8	Hungary	Central Europe
9	Latvia	Northern Europe
10	Lithuania	Northern Europe
11	Macedonia	Southeast Europe
12	Montenegro	South and Southeast Europe
13	Poland	Central Europe
14	Romania	Central, Eastern and South-eastern Europe
15	Serbia	Central and southeast Europe
16	Slovakia	Central Europe
17	Slovenia	Central Europe

Table 13: ADB Membership of European Countries

<i>Sl.</i>	<i>European Member Country</i>	<i>EU Status</i>
1	Austria	EU Member
2	Belgium	EU Member
3	Denmark	EU Member
4	Finland	EU Member
5	France	EU Member
6	Georgia	EU Partner
7	Ireland	EU Member
8	Italy	EU Member
9	Luxembourg	EU Member
10	Netherlands	EU Member
11	Norway	EU Partner
12	Portugal	EU Member
13	Spain	EU Member
14	Sweden	EU Member
15	Switzerland	EU Partner
16	UK	EU Partner (until the finalization of Brexit Deal)



### *Ethical Considerations*

As for the practise of personal research ethics, I have conducted referencing of the works of other scholars and all the in-text citations with detailed bibliographic information following the conclusion of the thesis.