

Geopolitical Outlook for Europe Confrontation vs Cooperation

European Political
Strategy Centre

The global outlook for the next 12-24 months looks to be made of ongoing **international instability**. Great power competition, deliberate disruptiveness and increasing transactionalism in foreign policy, along with the accumulation of crises, terrorism and wars, will create persisting unease and uncertainty.

But the shifting geopolitical context will also provide strategic opportunities that can be seized through diplomatic, economic or military measures. **Although some will choose confrontation, this need not fully displace new initiatives to champion cooperation around common interests and values.**

For Europe, fuelled by its sound economic recovery and newfound political momentum, **it is a time for resolve, as well as for resurgence in the global arena, including on security and defence, trade and climate change**. US President Trump's unilateral withdrawal from the Iran nuclear deal – despite its success in constraining Iran's capability to produce nuclear weapons – is a case in point: EU efforts to save the deal are a sign of its renewed confidence in providing a stabilising function in a globalised world turning ever more unpredictable.

In this age of rapid disruption, success will depend on **agility and speed** in adapting to new circumstances, while keeping true to **Europe's values and interests**. A seemingly chaotic world will also place a premium on shaping the **strategic narrative**, both externally and internally, to provide **a sense of purpose and a plan of action**. Here is our perspective on the geopolitical outlook for Europe and Europe's strategic choices.

The return of great power rivalry

The paradigmatic feature of today's world disorder is increased great power competition. The rivalry between autocracy and democracy – once thought a thing of the past – is back again and reshaping the 21st century's geostrategic landscape, after roughly a quarter of a century of 'great power consensus'.

Indeed, since 1989, relations among the United States, China, Europe, and Russia were not only (mostly) peaceful and cooperative, but also aimed – at least by Western leaders – at a degree of political and economic convergence over time.¹ China's rapid economic growth, observers hoped, would lead to its greater political liberalisation. The European Union – a *sui generis* type of great power acting both through its institutions and its Member States – doubled in size in a relatively permissive international environment. Russia was viewed as an emerging democracy and even a potential candidate, around the turn of the century, for NATO membership.²

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Of course, there were notable exceptions to these halcyon years, such as divisions over NATO's intervention in Kosovo in 1999, the US-led war in Iraq in 2003, or Russia's invasion of Georgia in 2008. But the general sense of convergence enabled significant great power collaboration, with Russia acquiescing to the enlargement of NATO and the EU across Central and Eastern Europe; the NATO-Russia Founding Act; Russia's accession to the Council of Europe; the expansion of the G7 into the G8 to include Russia; the accession of China and Russia to the WTO; the US-Russian New Strategic Arms Reduction Treaty and agreement on supply routes into Afghanistan; or the UN Security Council's authorisation of NATO's intervention in Libya in 2011.

Notwithstanding earlier signs of disagreement, 2014 was a clear turning point. The stand-off over Russia's illegal annexation of Crimea and destabilisation of eastern Ukraine marked a severe breach of the international order. This was subsequently continued in Syria, where Russia's significant intervention with troops and military equipment in 2015 in support of the Assad regime was in direct opposition to European and US objectives to restore stability and facilitate a Syrian-

led political process in the war-torn country. Russia's interference in US and European elections in 2016 and 2017 further exemplified **a scale of tension not seen since the end of the Cold War.**

Next to this, **China's expanding foreign policy assertiveness is fuelling concerns in the Asia-Pacific region and beyond.** Its territorial claims and military build-up in the South China Sea, alongside heavy investments in enhanced anti-access/area-denial capacities, such as long-range anti-ship missiles and precision-guided weapons, threaten regional security. Similarly, China's air and naval forces have increasingly penetrated Japan's airspace and territorial waters near the Senkaku/Diaoyu islands, which are disputed between the two countries.

In the United States, the new administration has embraced this new competitive global environment, in a bid to revise what it perceives as unfair global bargains for the US.³ Although the new US foreign policy is still amorphous in many areas, including on Russia and China, the theme of contestation rather than convergence is clear.

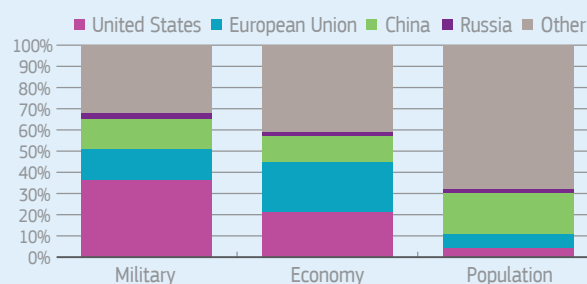
Box 1: The makings of 'great power': material resources still matter, but so do political will, creativity, networks and speed

Taken together, the US, the EU, China and Russia account for 59% of the global economy, 68% of the world's military expenditure, and 32% of the global population. It is clear that material resources matter and will continue to matter in terms of gaining global weight and strategic influence (Figure 1).

Despite trailing behind on objective measures of material resources, Russia has been able to maintain its position as a perceived 'great power' due to its presence as one of the five permanent members of the United Nations Security Council, as well as its formidable diplomatic and intelligence resources, its creative use of new technologies and its opportunistic exploitation of foreign policy issues. On the other hand, the EU has also consistently shown that its unique mix of soft power, economic leverage, and diplomatic heft can shape geopolitics. Examples of this include:

- Galvanising the Paris Agreement on climate change through a bottom-up approach;
- Securing the Iran nuclear deal through coordinated economic sanctions and leveraged diplomacy;
- Deploying European diplomacy, e.g. President Macron's engagement in facilitating the return of Prime Minister Hariri to Lebanon or German-French leadership within the Normandy format in managing the Ukraine conflict;
- Stemming the migration crisis in Europe through the EU-Turkey deal and counter-smuggling operations in the Mediterranean and Aegean Seas;
- Investing in free and fair trade agreements and sustainable global connectivity; and
- Setting world standards for the 21st century, e.g. through European data protection and privacy rules.

Figure 1: 'Great power' resources today



Sources: SIPRI for military spending (2017); World Bank for GNI and population (2016)

Rivalry will not necessarily translate into direct conflict among the great powers, partly due to nuclear deterrence and interests at stake, but will, at the very least, impede global collaboration and, at worst, increase the logic for competition.

As a result proxy conflicts are likely to continue, or even escalate, in Syria, Iraq, Yemen, Libya, Afghanistan, and elsewhere.⁴

In this environment of renewed great power competition, Europe continues to share much more in common with the US in terms of interests and values, than with China, let alone Russia. But all too often in this world where the rules-based international order and liberal democracy are under increasing pressure, **Europe is emerging as the sole remaining defender of cooperative multilateralism, human rights and Western values.**⁵ In response to this profoundly changing strategic environment, Europe's main challenge will be to hold the fort for the time being and strengthen joint global action, while reinforcing internal resilience and parrying threats from without (and, in some cases, from within).

Growing threat of stagnating Russia

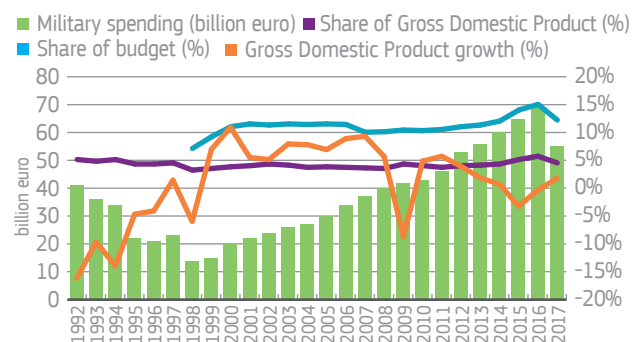
Over the medium-term, one of Europe's primary challenges will continue to emanate from Russia. The fallout over Russia's very likely use of a nerve agent in the UK to poison its former spy is only the latest instance in a series of conflicts. Although security challenges are historically created by *rising* powers, it is Russia's *stagnation* (and the drive to conceal it) that has destabilised the foundations of European security.⁶

Russia, notwithstanding its outsized geography and self-image, has been, by and large, at a standstill in terms of material power over the past 25 years, and is likely to continue to remain so.⁷ Its population, uniquely for a developed country, has actually shrunk and its GDP per capita is only marginally higher than at the end of the Cold War. It has few close allies and its key institutional initiative in the form of the Eurasian Economic Union has plateaued at best. On the other hand, Russia has been **investing in its military**, with expenditure growing at 10% annually between 2011 and 2016, and accounting for 4.3% of Russian GDP in 2017 – against 3.1% in the US, 1.9% in China, and 1.5% on average in the EU.⁸

But **this spike in military spending is likely to be unsustainable** and Russia may need to revert to its 3-4 percent historical average.⁹ Indeed, transatlantic sanctions against Russia appear to be succeeding in constraining Russia's military spending. Even though the Kremlin has not changed its aggressive stance and

the ultimate objective of compelling Russia to end the conflict in Ukraine according to the Minsk agreements has not yet been achieved, its capacity to inflict damage is today more limited. Economic pressure on Russia has led to an overall decrease in GDP in 2015 and 2016,¹⁰ forcing it to cut defence spending by 20% in 2017 and stunting its growth outlook.¹¹

Figure 2: Russia's military spending under pressure



Sources: SIPRI for military spending; World Bank for GDP

Russia's role in the world is often viewed as destabilising. In Ukraine, Moscow sought to sow chaos and nip democracy in the bud by seizing Crimea at the barrel of the gun, and through its involvement in eastern Ukraine, at a human cost of over 10,000 casualties and hundreds of thousands displaced people. Russian dreams of Novorossiia propagated throughout 2014 and 2015 threatened to further carve up Ukraine. But Russia failed in all of these objectives. Ukraine's government is still in power and its civil society has shown extraordinary resilience and resolve over the past four years.¹² It will be up to President Putin, freshly re-elected for another six-year term to now engage on qualitative progress in the Minsk process, including the potential deployment of a UN-led peace mission to eastern Ukraine.

In contrast to setbacks in Ukraine, Russia's 2015 intervention in Syria was a 'success' by its own benchmarks: the tactical demonstrations of force served to bolster its international image as a great power, while stabilising its ally – the Assad regime – and somewhat destabilising Europe through mass-scale flows of Syrian refugees fleeing Assad's brutality. Moscow has also scaled up the use of hybrid tactics in general, including fake news and large-scale disinformation campaigns, as a tool to challenge Western democracy, openness and transparency. For the foreseeable future, Russia will continue to opportunistically exploit strategic openings to obtain maximum advantage at minimal cost.

The West's cooperation with Russia is likely to remain limited to a small set of core common

interests, such as counter-terrorism and nuclear non-proliferation. Russia's attempts to divide Europe and the transatlantic community have largely failed – and have instead had the opposite effect of closing ranks within the West, as evidenced most recently by the transatlantic expulsions of Russian diplomats in the wake of the nerve agent use.

But **transatlantic and European unity on Russia did not happen automatically and should not be presumed as a given**; instead, **it needs to be continually maintained and coordinated.** Russia's true national interest in reconciling with the West by fundamentally changing its offensive behaviour will continue to be elusive. President Putin's continuation in office suggests that Russia's fundamental policies are unlikely to change in the medium term. Nevertheless, the long-term objective of reconciliation needs to be pursued since there is no real European security for future centuries without Russia.

China on the global offensive

A longer-term challenge for Europe will be an emboldened China that, in a world of flux, has started to flex. Until recently, Beijing sought to keep a low profile in foreign policy, following Deng Xiaoping's maxim to 'hide your strength and bide your time'. But under President Xi Jinping, China has become increasingly assertive militarily, economically, and diplomatically.

With its economy growing rapidly over decades, China's **military spending** has soared nearly fivefold since 2001 and is second only to the United States at around 190 billion euro. Besides from strengthening its military presence in the South China Sea, China is also increasingly active in Africa, where it has expanded its peacekeeping role and established its only overseas military base in Djibouti.¹³

China's economic engagement has also increased globally. In 2013, China launched the Belt and Road Initiative to increase economic exchange with other parts of Asia and with Europe through railway and communications links. In 2016, it established the Asian Infrastructure Investment Bank, capitalised at around 85 billion euro, which could serve as a competitor to the World Bank and the Asian Development Bank by shifting norms and standards in development finance through less emphasis on human rights, democracy, and rule of law.

Within Europe, China has expanded its strategic investments across several countries and sectors, and has utilised a '16+1' diplomatic format to engage with Central and Eastern Europe separately, rather than with the EU as a whole. Many also believe that China has been able to leverage prospects of investments in European countries to have them veto EU statements criticising China's human rights record.

Over the next 12-24 months, China is likely to continue to seek to revise the rules-based international order through measures to carve out a sphere of influence for itself in Asia, de-emphasise the importance of human rights as an international concern, and promote authoritarianism as a potentially attractive alternative to liberal democracy. Indeed, President Xi emphasised the growing strength of China's 'soft power' several times at the 19th Party Congress. Shaping its strategic narrative along the contours of the 'Chinese Dream', Beijing will continue to position itself as a defender of the international order that has fuelled China's economic growth, but it will be an 'à la carte' order in China's image: rules-based (and thus clear, predictable, and stable), but not liberal (i.e. based on democracy, human rights, and market capitalism). However, China's ability to operationalise its objectives in the near-term will be limited. **The liberal international order was not built in a day and it will be hard for China to reshape it in a single coup de grace.**¹⁴ Instead, China's approach will entail gradual and subtle changes on multiple fronts through a thousand cuts. This dynamic will make China a complex player for other actors.

In Europe, China's divide-and-conquer strategy will continue to pose difficulties to homogenous EU approaches across several policy areas, notwithstanding the promise of the 2016 EU strategy on China.¹⁵ In contrast to Russia's tactics (which have largely united Europe), China has been able to sow division in Europe on issues such as human rights and economic engagement. The EU will need to **defend** decisively where necessary (e.g. on **steel overcapacity, fair market access, human rights**) and **cooperate** where beneficial (e.g. on **climate, UN peacekeeping**). China already is the largest contributor of peacekeeping troops out of the permanent members of the UN Security Council, and the second largest financial contributor to UN peacekeeping missions.¹⁶ The EU is negotiating a bilateral investment agreement with China. And China's commitment to the Paris climate agreement is integral to its success and thereby a core European objective.

An unpredictable US partner

In dealing with Russia and China, as well as other global challenges, Europe will continue to find the Trump administration's foreign policy amorphous.

Some observers even argue that it is difficult to ascertain any real policy – determined by some degree of coherence between rhetoric and action over time – across several areas.¹⁷ The list of the administration's conflicting declarations and decisions is long and well-known (Box 2).

Box 2: President Trump's policy oscillations

- Declaring that NATO is 'obsolete' before hailing its counterterrorism efforts and proposing to increase US spending for enhanced forward presence in Central Europe by over 2.5 billion euro for 2019 (nearly 100% over the 2017 FY level);
- Questioning the One China policy through outreach to the President of Taiwan before embracing Beijing;
- Railing against the United Nations and proposing 30% cuts in US contributions before embracing it, acknowledging that UN spending is 'peanuts' relative to its work, and settling for symbolic reductions in peacekeeping spending;
- Withdrawing from the Paris climate agreement before suggesting that the US may rejoin it;
- Withdrawing from the Iran nuclear deal without providing a compelling alternative to prevent Iran from developing nuclear weapons;
- Withdrawing support for the two-state solution to the Israeli-Palestinian conflict, then embracing it, before upending it through the recognition of Jerusalem as the capital of Israel;
- Welcoming a meeting with Kim Jung-un, then dismissing diplomatic efforts in favour of unleashing 'fire and fury' in North Korea, before reverting to negotiations and granting the prestige of a summit (itself cancelled and then resumed) without clear benefits in return.

Whereas unpredictability can be a source of tactical leverage in some one-off negotiations, a pell-mell approach is corrosive for the global order based on repeat interactions and patterns of behaviour. Volatility, deliberate disruptiveness and increasing transactionalism are also in tension with US core interests as a status-quo great power and a key

pillar of the liberal international order.¹⁸ Overall, the past 18 months have raised uncertainty as to continued US support for a cooperative global order built on multilateral institutions and a common rule book.¹⁹

The administration's 2017 National Security Strategy could provide the basis for clarity in US foreign policy.

With respect to Europe, the strategy argues that the 'United States is safer when Europe is prosperous and stable, and can help defend our shared interests and ideals' and concludes that the US therefore remains 'firmly committed to our European allies and partners.' This echoes the Obama administration's reference to Europe as 'partner of first resort'. It also reciprocates the EU's 2016 Global Strategy reference to the US as Europe's 'core partner' – the only country so designated, in addition to two international institutions, NATO and the UN. Yet, it remains to be seen to what extent this strategy translates into real policy,²⁰ particularly with a new National Security Advisor and Secretary of State at the helm.

Over the next 12-24 months, ambiguity in US foreign policy is likely to persist.²¹

Although initial developments in 2017 may have been attributed to insufficient staffing and a steep learning curve, more recent developments demonstrate the limitations in systematically formulating and implementing policies – even for an experienced and talented national security team – without a more marked political steering.

For Europe in the near-term, it will be increasingly difficult to continue to meaningfully rely on the US as the core partner to tackle global challenges,

notwithstanding the promise of the 2017 National Security Strategy and a long-established tradition of deep interdependence and close collaboration between Europe and America. This challenge will be felt particularly on major issues requiring presidential decision, e.g. climate change or conflict resolution. On the other hand, there may be some areas, where close policy coordination and implementation can take place at ministerial or sub-ministerial levels (e.g. in the Balkans, on economic policy or on international sanctions) or legislative levels (e.g. concurrent hearings on protecting democracy from foreign interference and fake news). And policy coordination can and should continue at departmental levels on some areas such as on counterterrorism, the US enhanced forward presence in Europe, and military cooperation.

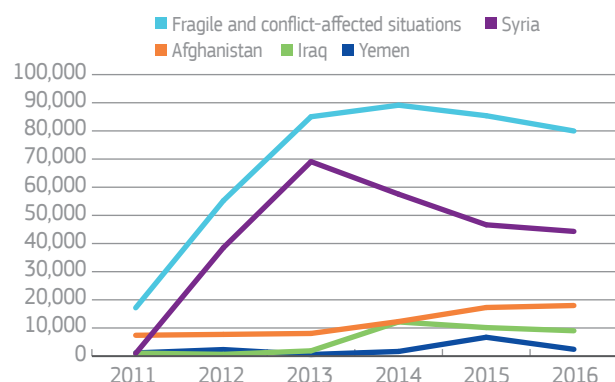
Instability in and around Europe

A key feature of world disorder is insoluble conflicts and increased non-State violence. Over the past six years, not only have new conflicts erupted, most dramatically in Syria, Ukraine, and Yemen, but old ones persist (e.g. in Afghanistan and Iraq), and some have been 'frozen' for many years.

Conflicts thus accumulate, unabated. **Many of them are fuelled by outside actors, as part of struggles for regional hegemony** – e.g. between Saudi Arabia and Iran around the Sunni-Shia ethnic divide.²² In Yemen, the proxy struggle between these two regional rivals shows no signs of ending. Over 8 million people have been at risk of famine and nearly 17 million in need of food, in a country of 28 million. Given the 'new normal' duration of conflicts, this crisis may continue for another several years before a political solution can be reached.

The human cost of these conflicts is profound, with casualties in Syria alone ranging from 300,000 to 500,000, and in Iraq nearly 100,000. After a long-term global decline from 1945 to 2011, war-related deaths have increased dramatically (Figure 3).²³

Figure 3: War casualties have seen dramatic spike



Source: World Bank data on battle-related deaths. This data illustrates the global trend, but does not necessarily reflect precise pinpoint estimates; accurate data on casualties in war zones is often difficult to obtain and consists of wide ranges.

Refugees and internally-displaced persons totalled over 65 million in 2016, nearly double the number in 2011, in the world's largest humanitarian crisis since World War II. In 2017, nearly 1 million Rohingya refugees fled ethnic cleansing in Myanmar to neighbouring Bangladesh.²⁴ Currently, the UN High Commissioner for Human Rights counts 18 'protracted' conflicts, whereby over 25 thousand refugees have been displaced for at least five years. Arrivals in Europe reached record levels in 2015 and 2016.

And although these flows have now fallen to pre-crisis and sustainable levels,²⁵ it is possible that another conflict, or an escalation of existing conflicts, could lead to a new spike flows of refugees from the Middle East or North Africa.

The four 'great powers' have largely shown themselves unwilling to work jointly to resolve ongoing conflicts. Instead, conflict zones have become areas of great power rivalry by proxy, especially in Syria. Violence has also spread beyond conflict zones as international terrorism has become more pervasive throughout the world. In the Middle East, Sub-Saharan Africa, and South Asia, **the breakdown of state structures and the spread of ungoverned spaces have allowed violent extremism to thrive.** Although the global number of deaths due to terrorist attacks decreased to around 25,000 in 2017, from a peak of 32,000 in 2014, the number of countries affected by terrorism increased from 65 in 2015 to 77 in 2016.²⁶

2017 could have marked a turning point in the violence, with the liberation of Mosul from ISIS in Iraq and the defeat of ISIS in Syria by the US-led Global Coalition. But the reality today is that the Syrian civil war remains unresolved and half of the Syrian population continues to be displaced. Violence has recently escalated again without regard for civilian casualties, as seen with the indiscriminate bombardments of civilian infrastructure in Eastern Ghouta, the continued use of chemical weapons against civilians, and the deliberate denial and obstruction of humanitarian access to those in need. Turkey's offensive against Kurdish forces has further complicated the already fragile security situation.

Moreover, although the defeat of ISIS has diminished the group's ability to recruit, fundraise, and orchestrate external attacks, **the group maintains the ability to pursue a low-level, deadly insurgency,** carrying out lone-wolf attacks throughout the region and potentially in Europe, with the possible return of foreign fighters.²⁷ At the very least, it will claim credit for inspiring terrorist attacks by other individuals or groups, even if it does not play a deciding role, and thereby will maintain its virtual existence.

The number of European countries affected by terrorist attacks has increased in the past three years, with hundreds of Europeans killed in terrorist attacks since 2015.²⁸ Many of these were carried out by individuals, radicalised or instructed online. In addition to attacks organised from abroad, there has been a surge in 'low-tech attacks', privileging operational effectiveness over technical complexity (e.g. knife assaults and vehicle rammings). While low-capability attacks are likely to remain the predominant trend in Europe, there is also a growing threat of terrorists using technologies such as commercially-available drones to expand their lethality.

In the foreseeable future, intractable conflicts and ubiquitous terrorism are going to persist over time, and will have to be managed rather than resolved. At home, the EU will need to continue strengthening its counterterrorism and internal security policies, alongside Member State efforts, sustainably allocating resources proportional to the challenges at hand. Measures taken in recent years, such as on the interoperability of law-enforcement databases and the EU directive on Passenger Name Record data, already represent significant advances in countering the terrorist threat – albeit with the likelihood that it will be contained, although not eliminated.

Abroad, the key challenge will be for Europe to clearly identify its core interests at stake – with the Middle East as a clear focal point – and to allocate appropriate resources to serve them. Preserving the Joint Comprehensive Plan of Action in Iran as a model of multilateral engagement and as central to regional stability and nuclear non-proliferation will be one element. Mediating the Israeli-Palestinian conflict as a member of the Quartet, or bolstering Iraq as a democratising pillar to restore regional balance of power may be another. In Syria, Europe is already the leading donor in the international response to the crisis, with an overall total of over 10.6 billion euro since 2011. Determining the eventual scope and scale of potential reconstruction support – when the conditions for such efforts will be ripe – will be also a core issue. The main task will be to translate Europe's large economic and diplomatic might into political leverage and a unified voice to support a comprehensive, genuine and inclusive UN-led Syrian peace process. Europe has already taken increasing responsibility for forging a political solution to the Syrian conflict, with its support to efforts aimed at preventing the use of chemical weapons, intensive humanitarian diplomacy, support to the Global Coalition to counter Da'esh, and assistance to Syria's neighbouring states hosting millions of refugees.

The EU has significant credibility in the region: as a rules-based and consensus-driven institution, its decisions are rarely suspected to have hidden agendas and, though they may be slow to develop, they stick. As such, Europe is a trusted and respected actor through the region, and can equally mediate in Egypt, Iran, Iraq, Lebanon, Saudi Arabia, and Yemen.

Europe's resurgence on the global scene

A stronger player in security and defence

Partly due to the above developments, recent years in Europe have felt like a rollercoaster.

In particular, since Russia's seizure of Crimea and involvement in eastern Ukraine, grave crises have piled up on the back of a tepid economic recovery, the rise of illiberal populist movements, and a questioning of the very 'raison d'être' of the EU following the UK referendum to leave the EU. Whether in the form of terrorist attacks or Russian interference in European elections, security threats have emerged as one of the biggest preoccupations of EU citizens. But whereas 2016 probably marked a low point in modern EU history, 2017 was a banner year for Europe.²⁹ Security threats remain, but Europe has responded with vigour, foresight, joint political will, and discipline, largely also reflecting recent dynamics in the transatlantic relationship, which suggest that Europe must do more to take its destiny in its own hands.

As a result, more progress was made on European defence in the last year than in the last 10 years.³⁰ In particular, the EU established a headquarters for military non-executive missions (joint Military Planning and Conduct Capability), launched an institutional framework to strengthen the EU's Common Security and Defence Policy and develop Europe's military capacities (Permanent Structured Cooperation), and allocated funds for joint defence research and procurement (European Defence Fund and the European Defence Industrial Development Programme). New leadership, structures, and increased investments will enable the EU to increase its overall defence and security capabilities to respond to future crises faster and better, in strong partnership with the UN and full complementarity with NATO as the cornerstone of collective defence for its members. Enhanced defence capabilities of EU Member States will strengthen the European pillar within the Alliance and respond to repeated demands for stronger transatlantic burden sharing. Yet the lion's share of the work lies still ahead.

For the foreseeable future, Europe will continue to seek to chart the way towards a *European Defence Union*, as an overarching framework for defence policy at EU level, and an integral part of a Europe that protects and defends at home and abroad.

New, more ambitious missions – as part of Europe’s unique integrated approach to security – could grow out of recent dynamics related to European Defence. Joint development and procurement of modern and interoperable capabilities for current and future military needs, will generate significant synergies and greater overall might. Doing things together will gradually inform a genuine common strategic culture.³¹ **The key challenges on that road remain acquiring a reflex for defence cooperation, and increasing overall resources for security and defence.**

The future European Defence Union will have to be solid and agile enough to ensure the shift from delivering the capabilities needed today, to doing that *and* adapting to the structural changes that disruptive technology and innovation will bring to security and military strategies, military doctrines, defence posture, missions, and weaponry. In preparing for the battles of the future – not the least financially – Europe’s added value will emerge even more clearly as delivering on the promise of lasting peace, security and prosperity that the European project was built on. Europe’s power to accomplish its objectives and contribute to future global stability will continue to be based not only on its growing military strength, but also on its substantial tools of trade, foreign investment, sustainable development cooperation, humanitarian aid and crisis prevention policies.

A champion of open and fair trade, and multilateralism

International trade and foreign direct investment (FDI) have returned to the centre stage of geopolitics. The waning of the international consensus on the benefits of globalisation and free trade has manifested predominantly in the stalled WTO Doha round negotiations. Hopes for a multilateral investment agreement have also faded. As a result, many countries have turned either to bilateral/regional deals or – on the other side of the spectrum – to protectionist measures.

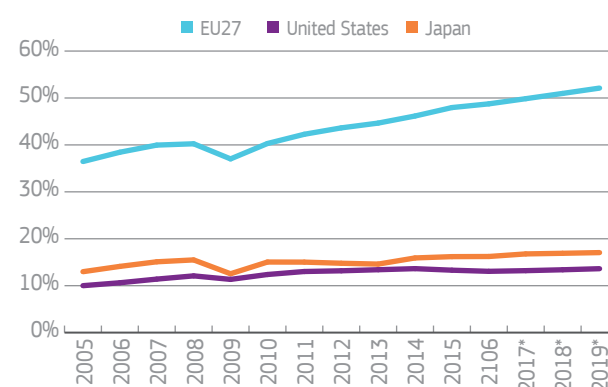
The US withdrawal from the Trans-Pacific Partnership, its proposed renegotiation of NAFTA, its imposition of tariffs on steel and aluminium, and threatened trade war with China, as well as behind-the-border trade barriers in other countries, are but some examples of these protectionist trends.

And, although such practices and disputes have always existed, they were previously settled through diplomacy or World Trade Organisation interventions. However given the current US administration’s expressed disregard for the latter, and the current context of great power rivalry, **the risk of escalation and of outright economic wars appears higher than before.**

With an economy where **1 in 7 jobs depend on exports** to the rest of the world, the EU cannot afford to get caught up in tit-for-tat trade spats and retaliatory measures that could affect its economic and political ties with major partners such as the US or China.

Figure 4: EU exports drive economic growth

Exports of goods and services at 2010 prices, in % of GDP



Source: European Commission, Annual Macro-Economic Database (AMECO)

However, even in Europe, openness cannot come at the cost of strategic interests, in particular where there is a lack of reciprocity, or where government funding is used to help companies enter foreign markets and gain access to cutting-edge technologies and commercially-sensitive – or even security-related information.

Striking the right balance between economic openness and national interests will be an ever more complex exercise. Yet it is important to recall that short-term measures to benefit local industries can result in long-term damage to economic exchange, and at worst, lead to a vicious circle of beggar-thy-neighbour trade policies. Even when the professed objective is economic and laudable, such as protection of intellectual property, tariffs are an inefficient and costly tool at generating leverage.

In this context, the EU must continue to champion an open global economy. The recent completion of the Comprehensive Economic and Trade Agreement with Canada, which provisionally entered into force in September 2017, as well as the recent deal with Japan and those currently under negotiation (for instance with the South American trade bloc Mercosur, Mexico, Australia, New Zealand and the Philippines) will further strengthen its global network, while maintaining a clear focus on upholding Europe’s high labour, health, food safety and environmental standards. In the current geopolitical climate, such **trade and investment partnerships surpass mere business interests. They are a vow of collaboration between democracies and advanced economies** to continue promoting openness and multilateralism based on

shared rules and standards. They can also have non-negligible **spill-over effects on security and regional stability**.

The opportunity for the EU to shape a fair global trade agenda and global rules of the road is clear.³²

The EU's integrated negotiating structure within the European Commission means that the EU can speak with one voice on trade on behalf of the largest economy in the world. Its sheer size means that it can shape the global norms, standards, and rules to which businesses adapt and replicate across the world, as it has shown in driving and maintaining the Paris climate agreement.³³

A reliable partner for development

In development aid, Europe continues to be a superpower, accounting for nearly 60% of official development assistance (ODA) in 2016. The United States, Japan, and Norway collectively provide another 25%. But emerging donor countries such as China, Saudi Arabia or Turkey are playing an increasing role in funding developing countries – and Africa in particular.

Many of these new donors apply different models to the 'conventional' OECD Development Assistance Committee (DAC) model, shying away from international transparency rules. Generally, these new players do not tie their aid or investment to the establishment of democratic institutions. Nonetheless, these emerging donors remain generally appreciated in receiving countries because they offer speed of delivery and typically rapid economic returns.

Although there are few official figures relating to China's foreign aid flows, estimates range between 4 to 8 billion euro, placing it at a similar level as Norway and Japan.³⁴ However, **foreign aid is but a small part of China's funding strategy** in developing economies. Recent data suggests that **China in fact rivals with the US if one also takes into consideration financial transfers other than foreign aid.**³⁵ **These are mainly in the form of commercial loans that have to be repaid with interest**, fuelling concerns of a possible new debt crisis to come, in Africa in particular.

Next to this, while Western Europe has typically been the main source of capital investment in Africa, followed by North America, both regions were overtaken by Asia and the Middle East in 2016. China-based investments grew by 1262% to account for 39% of total capital investment in Africa, accompanied by a surge in **investments from the United Arab Emirates and Saudia Arabia.**³⁶

A number of concerns have been raised about these countries' apparent **'no-strings-attached-no-**

questions-asked' aid and investment approaches, with some saying they have an effect on the entire global lending system, forcing traditional donors to stop placing so many requirements on recipient countries. In Africa for instance, China has promoted the development of industrial zones without any conditions on issues such as the rule of law, corruption, or human rights. At the same time, many of China's project loans are tied to Chinese suppliers and technology transfers, or to the roll-out of cultural and linguistic programmes.

However, at a time when global demand for humanitarian and development aid far outstrips supply, and foreign direct investment flows to Africa continue to account for less than 5% of total foreign direct investment inflows worldwide, any increases must be welcomed.

It is likely that emerging economies will continue to boost their foreign aid spending over the next decade, possibly contributing as much as 20% of total foreign aid by 2020.

The growing foothold that China and other emerging donors are gaining in Africa is likely to ebb away at traditional Western donors' political and economic influence in the region. However, Europe should not compromise its values in its engagement with Africa for the simple reason that the theatre of operation is getting more crowded. Instead, it needs to reflect on how to update the relationship to reflect new global circumstances, while also being more confident in defending the virtues of its own partnership with Africa. This means moving away from the historical donor-beneficiary framework towards a partnership of mutual interests, based on clear terms of engagement and open dialogue.

With the 2016 External Investment Plan – leveraging 4.1 billion euro in European Commission funds to yield 44 billion euro in private investments by 2020 – the EU has moved beyond official development assistance. It engages with the private sector and diasporas, in order to build new partnerships for sustainable change in developing countries, including inclusive economic growth, job creation, poverty reduction and an improved business and investment climate.

And, notwithstanding its collective development weight, Europe's leverage is often less than its potential, given that it is decentralised and sometimes not fully coordinated among the EU and EU Member States. The effectiveness of Europe's development aid, and its value within the overall external action toolbox, would only benefit from greater synergies among the EU Member States and EU institutions. With this in mind, the main challenge for Europe remains **in coordinating and streamlining development programmes, in line with its 2016 EU Global Strategy**.

Conclusion

In a rapidly changing geopolitical environment, Europe needs to maintain its overarching focus on its foundational principles of peace, democracy, human rights and the rule of law, while continuing to develop the requisite military, economic, and diplomatic means to attain its objectives.

Its structural features of deliberation and dialogue can be its competitive advantage if debate does not preclude decision, and declared aspirations are matched proportionately with the necessary capabilities.

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