



# The Geoeconomic Interconnectivity Index

Measuring the EU's Economic Ties with Its Neighbours  
Against Those of the US, China and Russia (2010–2023)

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# Executive Summary

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This report introduces the Geoeconomic Interconnectivity Index (GEOII), which aims to assess the EU's economic, financial and policy interconnectivity with its neighbouring regions — the Western Balkans, the Eastern neighbours, Türkiye and the Southern Neighbourhood — as well as to benchmark it against the other global powers, specifically the US, China and Russia. It covers the years 2010 to 2023 and includes 21 neighbouring countries.

The GEOII builds on the study *Keeping friends closer: Why the EU should address new geoeconomic realities and get its neighbours back in the fold* (Bertelsmann Stiftung ed. 2023), which Foreign Affairs recognised as one of the 10 best books of 2023. It provides data that identify both the EU's strengths and its growing vulnerabilities in regional economic relationships. This evidence-based foundation supports further research and informs the development of more effective EU policies.

The findings from the GEOII indicate that while the EU remains the most interconnected power with its neighbours in terms of trade, finance and policy, its position is increasingly under strain from rising geopolitical rivalries and global economic shifts. The data shed light on where the EU's ties are weakening — potentially creating openings for powers such as China and Russia — as well as where it holds competitive advantages that can be harnessed to reinforce its geopolitical ambitions.

Trade interconnectivity has declined since 2021, especially in the Southern Neighbourhood and Türkiye, as China expands its presence there. The EU's

diminishing importance as a supplier — particularly of high-tech goods — has enabled China to emerge as an alternative trading partner. However, the EU still maintains a strong lead in digital services trade and remains the top export destination for agri-food products from its neighbours.

In terms of financial interconnectivity, the EU continues to dominate in foreign direct investment (FDI) and development aid, but its share of investment and external debt exposure is shrinking. Much of this reflects a shift in EU investment towards the US, driven by incentives such as the Inflation Reduction Act subsidies. At the same time, the euro's declining role in neighbouring countries (e.g. those in North Africa) has partly reduced the EU's financial leverage.

On policy interconnectivity, the EU has recently surpassed Russia as the most interconnected power, largely due to deeper trade agreements, greater regulatory alignment and, in no small part, increased arms transfers, particularly to Ukraine. Russia's previously high scores in this area reflected lower non-tariff barriers and a limited use of formal trade restrictions as well as financial and trade sanctions despite its repeated weaponisation of trade, investment and migration flows. However, the EU's use of non-tariff measures (NTMs) and sanctions may continue to weaken its policy connectivity, especially in contrast to the less restrictive stances of China and Russia.

In terms of sub-regions, the EU retains its strongest influence in the Western Balkans and among its Eastern neighbours, particularly Ukraine and Mol-

dova – countries that have drawn closer to the EU in response to Russian aggression and hybrid warfare. China is gaining ground both in the Western Balkans and the Southern Neighbourhood, primarily through infrastructure projects and expanding trade relations. Türkiye remains strongly tied to the EU, although both China and Russia have increased their presence there through strategic investments and energy partnerships. In the Southern Neighbourhood, the EU continues to play a leading role, but its dominance is increasingly challenged by China's growing trade and financial footprint.

To maintain and strengthen its regional leadership position, the EU should deepen economic ties with its neighbours by renegotiating and modernising long-standing trade agreements to ensure a level playing field. This should involve reducing NTMs, expanding market access – particularly for agri-food products – and mobilising both public and private investment. It must also reform its enlargement approach by identifying new ways to accelerate accession for the Western Balkan countries, Ukraine and Moldova while also including options for phased or partial integration, as the current process is too slow and rigid. In parallel, the EU should revitalise its economic partnership with Türkiye by using the modernisation of the customs union as leverage to promote deeper alignment and shared strategic interests. To counter growing Chinese influence, the EU must invest more assertively in innovation, critical raw materials and digital infrastructure across the region.

At the same time, the EU should reform its approach to NTMs, ensuring that they do not undermine long-term regional integration or strategic partnerships. More permanent market access arrangements, stronger investment incentives, and a balanced use of conditionality in financing tools will be key to sustaining the EU's influence. By focusing on connectivity, resilience and mutually beneficial partnerships, the EU can preserve its strategic position in an increasingly contested geopolitical landscape.

# 1. Introduction

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The return of power politics is reshaping the global order. Today, economic and political might increasingly supersede legal norms and multilateral consensus. China, Russia and, to a growing extent, the United States are not merely competing for global influence – they are actively working to reshape international rules and institutions to serve their strategic interests. In Russia’s case, this has extended beyond coercion to the outright use of military force, as seen in its wars in Georgia and Ukraine.

This presents a distinct challenge to the EU. Unlike those of traditional great powers, the EU’s foreign policy has been shaped more by norms, law and multilateral cooperation than by coercion. Indeed, the EU was never conceived of as a classical geopolitical actor, as it lacks a unified military structure and the military instruments that underpin traditional state power. Instead, its external influence has relied on integration, rules-based cooperation and economic interdependence. Moreover, the EU’s most significant foreign policy mechanism has been enlargement, rooted in voluntary integration and shared governance, although this has mostly ground to a halt since Croatia’s accession in 2013.

While China, Russia and the US are reshaping their global engagement through increasingly assertive economic and strategic policies, the effects of this competition are being acutely felt in the EU’s imme-

diate neighbourhood.<sup>1</sup> These sub-regions may not always be the most intense arenas of confrontation globally, but they are among the most consequential for the EU itself. Economic influence, infrastructure investments and political alignments in the neighbourhood directly affect the EU’s security, stability and strategic autonomy. Understanding the scope and quality of these interconnections is therefore essential – and geoeconomics offers the most relevant lens for doing so.

Geoeconomics, defined as the use of economic instruments to pursue geopolitical objectives (Luttwak 1990), offers the EU a more natural mode of influence – and one that aligns with its institutional strengths and normative identity. Unlike traditional geopolitics, which depends on military and diplomatic power, geoeconomics centres on how states use trade, investment and regulatory frameworks to achieve strategic outcomes. This report presents the **Geoeconomic Interconnectivity Index (GEOII)** as a new tool to measure and compare the EU’s economic and policy linkages with neighbouring countries against those of China, Russia and the US.

1 The reader will notice that we refer to the “EU’s neighbourhood”, “EU neighbouring countries” and simply “the neighbourhood” throughout this study. The European Neighbourhood (written with a capital “n”) naturally refers to the Eastern Partnership and the Southern Neighbourhood. However, since we also include the Western Balkan countries and Türkiye in the EU’s “neighbourhood” in this study, we lowercase “neighbourhood” and “neighbouring” unless we are specifically referring to the European Neighbourhood. On a similar note, we generally try to refer to the Eastern Partnership, the Southern Neighbourhood, the Western Balkans and Türkiye as “sub-regions” and to the four of them collectively as “the region”.



The development of the Index is rooted in a growing recognition that economic presence alone is not enough. Recent global shifts – such as the US’ retreat from multilateralism under President Donald Trump (Vinjamuri et al. 2025), trade conflicts and Russia’s military aggression – have challenged the EU’s traditional neighbourhood and accession policies. These developments have forced the EU to rethink how it should maintain and deepen ties with its neighbourhood.

The GEOII responds to this need by quantifying the relative strength of the EU’s trade, financial and policy relationships with 21 countries across the Western Balkans, its Eastern neighbours, Türkiye and the Southern Neighbourhood.<sup>2</sup> Drawing on 43 indicators, it offers a comparative, data-driven assessment of the EU’s geoeconomic footprint between 2010 and 2023.

The GEOII is structured across three sub-dimensions:

- **Trade interconnectivity** (22 indicators), capturing flows of goods, services and digital trade – arguably the cornerstone of the EU’s external influence. It reflects the EU’s ambition to balance open strategic autonomy with the resilience of supply chains and sustainability goals (European Commission 2021).
- **Financial interconnectivity** (7 indicators), measuring foreign direct investment (FDI), external debt, direct budgetary support, bank lending and the euro’s regional role. These are also key instruments of the EU’s economic diplomacy.

- **Policy interconnectivity** (14 indicators), covering trade and investment agreements, regulatory alignment, monetary and fiscal convergence, sanctions and arms transfers. This dimension assesses the depth of institutional integration and alignment.

Where missing observations for 2023 go beyond the acceptable threshold outlined in the GEOII’s methodology, figures are reported with a dashed line.<sup>3</sup>

The findings reveal how major events – such as the global financial crisis, Russia’s annexation of Crimea, the rise of China, and the full-scale war in Ukraine – have shaped the EU’s strategic posture (Delcour 2017). At the same time, despite its substantial economic presence, the EU has often struggled to convert interconnectivity into sustained political influence (Youngs 2021). Compared to those of more assertive actors that combine economic engagement with political and security inducements (e.g. China and Russia), the EU’s reliance on regulatory governance and market access has proven less agile in moments of crisis (Risse 2019; Zielonka 2018). This disconnect between economic presence and political clout underscores the limitations of the EU’s traditional approach to external engagement and informs further reflection on how geoeconomics can be operationalised more effectively to serve strategic goals.

<sup>2</sup> The EU’s geographic neighbourhood includes territories with disputed political status, such as Kosovo and the Palestinian Territories. The authors and their respective institutions do not take a position on the status of these territories. The term “countries” is only used throughout the study for the sake of convenience. In addition, please note that even though the website and methodology refer to “EU Neighbours South” and “EU Neighbours East”, to facilitate reading, we refer to them in this report as “Southern neighbours” and “Eastern neighbours”, respectively.

<sup>3</sup> The full methodology is explained in a methodological note on the GEOII website ([www.geoi.eu](http://www.geoi.eu)).

## 2. Main findings for the EU and the other global powers

### 2.1 The EU

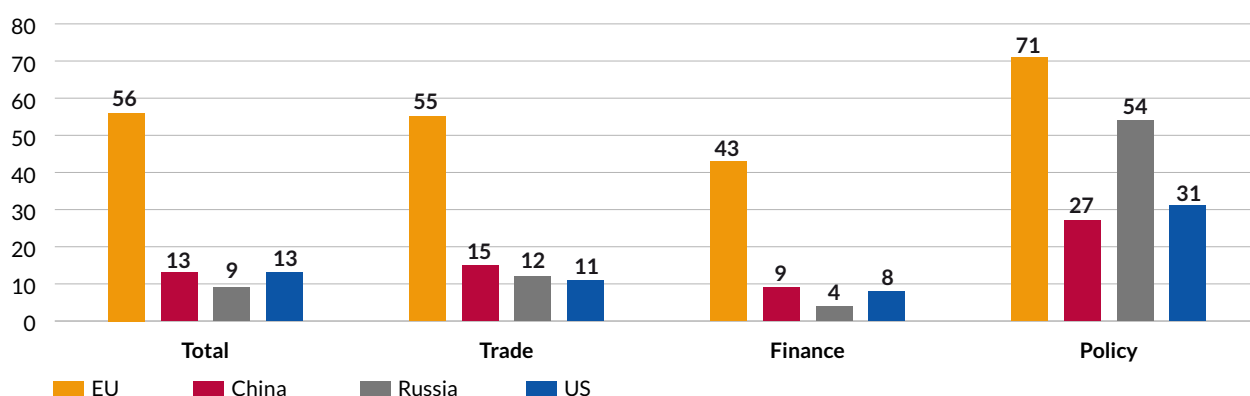
The EU remains the power most interconnected with its neighbours, leading across trade, finance and policy (Figure 1). While its strongest area is policy, where it plays a dominant role, this is also where it faces increasing competition, particularly from Russia and the US. In trade, the EU maintains a clear advantage, with significantly stronger ties than other powers. Even in finance, where its position is relatively weaker, it still far surpasses its global competitors, which only have a minimal presence.

Looking at interconnectivity with key sub-regions, the EU stands out as the most important partner

across all of them (Figure 2). Its influence is most pronounced in the Western Balkans and among the Eastern neighbours, where it maintains a decisive lead. It also plays a leading role in Türkiye and across its Southern neighbours. Collectively, the other powers pose the greatest competition to the EU in Türkiye. While Russia's engagement is more visible in Eastern Europe, China has been gradually increasing its presence in the Western Balkans and the Southern Mediterranean.

The EU's strong position should not lead to complacency, as recent trends suggest that the competition from other global powers is increasing. Although the EU maintained a high level of engagement with

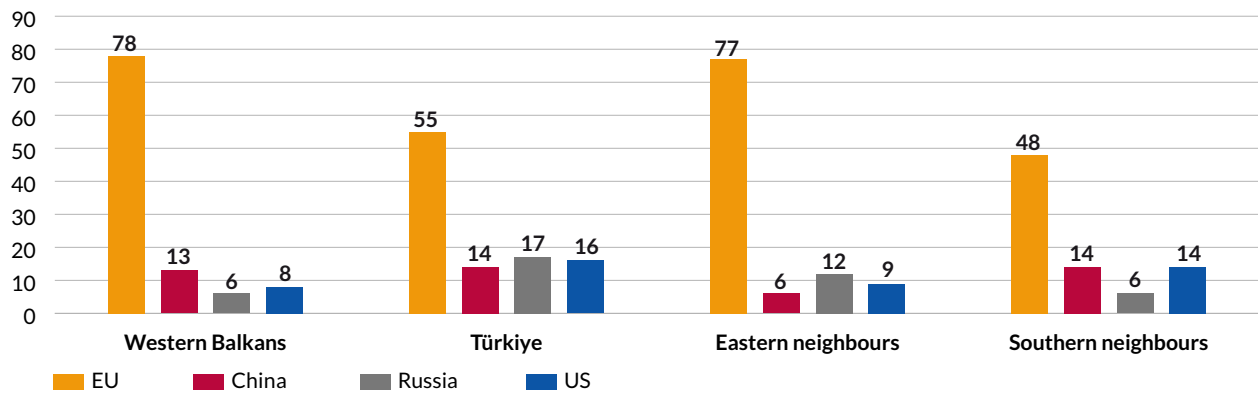
FIGURE 1 GEOII scores for EU and powers, total and by sub-index, 2023



Source: Bertelsmann Stiftung GEOII

| BertelsmannStiftung

FIGURE 2 GEOII scores for EU and powers in the four sub-regions, 2023



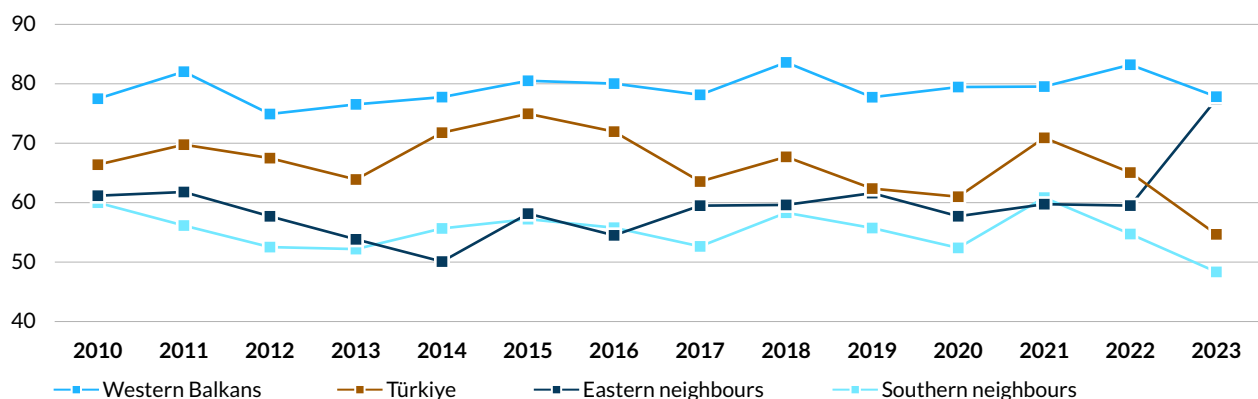
Source: Bertelsmann Stiftung GEOII

| BertelsmannStiftung

the Western Balkans and saw a sharp increase in ties with its Eastern neighbours in 2023, its influence has been declining in Türkiye and across its Southern neighbours, where other global powers are making inroads (Figure 3). These shifts highlight the need for sustained engagement to maintain the EU's role as the power most interconnected with the region.

The EU has been gradually losing ground in terms of overall interconnectivity as well as in key areas, such as trade and finance (Figure 4). Total interconnectivity appears to have peaked in 2021, followed by a decline in the two years since – though the latest data for 2023 remain incomplete and should be interpreted with caution.

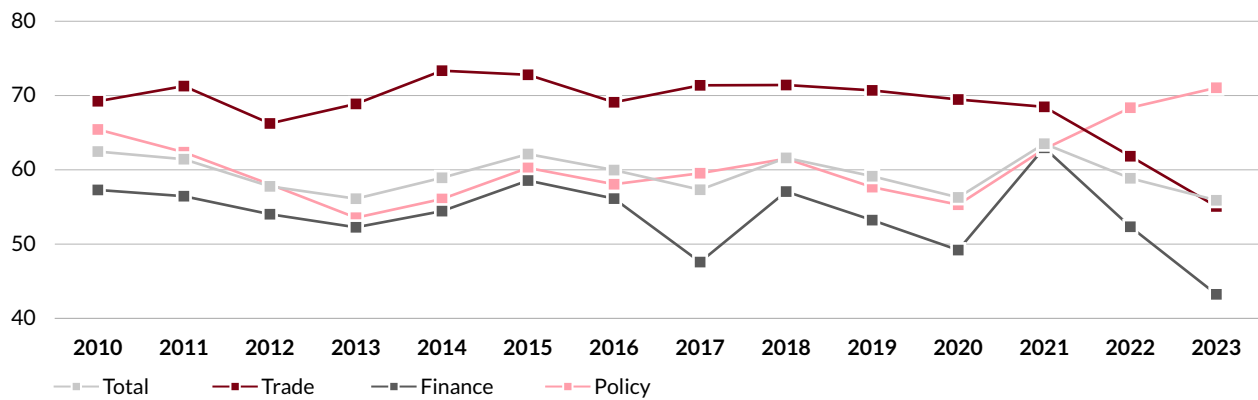
FIGURE 3 GEOII scores for EU over time, by sub-region



Source: Bertelsmann Stiftung GEOII

| BertelsmannStiftung

FIGURE 4 GEOII scores for EU over time, total and by sub-index



Source: Bertelsmann Stiftung GEOII

| BertelsmannStiftung

Until 2021, the EU had a consistently high sub-index score for **trade**, reflecting its strong ties with its neighbouring countries. Given that it has a huge market right on its doorstep, this is no surprise. In particular, its neighbours throughout this period were highly reliant on the EU for services imports, especially for information and communication technology (ICT) services, imports of goods as inputs into their own manufacturing (i.e. “backward integration”), and imports of green goods. We also find a high degree of export and import complementarity between the EU and its neighbours, reflecting at least a theoretical “match” between their trade baskets. The EU became relatively more important to its neighbours as an importer of ICT services. Additionally, the EU’s importance as a destination for agri-food exports increased, specifically to the Eastern neighbours.

However, there are areas of the trade sub-index where the EU has been losing its interconnectivity with its neighbouring countries, with a downward trend starting around 2014 and intensifying since 2021. Areas in which the EU has lost ground include both those where the EU’s reliance on its neighbours has slackened (e.g. the extent to which the EU’s own exports rely on inputs from its neighbours) and those where the neighbours have become less reliant on the EU and more on other powers. For instance, the

EU remains the largest supplier of agri-foods to its neighbours, but its role has diminished over time, with Russia gaining ground as an alternative source. Similarly, the EU has seen a declining role in supplying high-tech goods, green goods and critical raw materials (CRMs), as its neighbours have increasingly turned to other global powers for them. With respect to high-tech goods, China overtook the EU as the leading source of high-tech imports in 2017.

For both finance and policy, the EU’s sub-index scores have been consistently lower than for trade, and the trends in the 2010–2021 period were similar for both. The EU’s sub-index score for both declined in the aftermath of the global financial crisis, which triggered years of weak growth and investment in the EU as well as a turn inwards to focus on internal challenges.

The EU has also lost ground in **finance** since 2021, reflecting a sharp decline in the bloc’s share of green-field FDI projects in its neighbours, both for projects as a whole and for infrastructure projects in particular. The EU’s scores for the share of its neighbours’ inward FDI stock and the share of external debt of each neighbour owed to the EU also declined.

Two main factors likely explain these trends. First, EU companies have diverted their investment from the

neighbouring regions to the US, as the relative attractiveness of the latter destination increased in recent years owing to Inflation Reduction Act (IRA) subsidies (Bykova and Pindyuk 2024). The second likely explanation for the EU's declining financial influence in its neighbourhood is the declining role of the euro. While the common currency is becoming more important in some countries nearest to the EU, it is becoming less used in many others. In addition, the share of external debt owed to the EU has declined sharply since 2010 in several North African countries, most notably Algeria, Egypt, Morocco and Tunisia.

From an EU perspective, the real bright spot in terms of sub-indices since 2020 is in **policy**, where the EU's score has increased sharply. Particularly striking over this period are the EU's scores for the similarity of data regulatory frameworks between the EU and its neighbours (POL\_02), an increase in the synchronicity of monetary policy (POL\_12), and the increased importance of the EU member states as suppliers of arms to its neighbours (POL\_14). For much of this period, especially between 2015 and 2019, EU policy interconnectivity also increased due to the loosening of financial sanctions, which eased cross-border capital flows (POL\_11). However, this has been partly reversed since 2020, underlining the EU's willingness to use financial sanctions for geoeconomic ends. Given the international importance of the euro, such

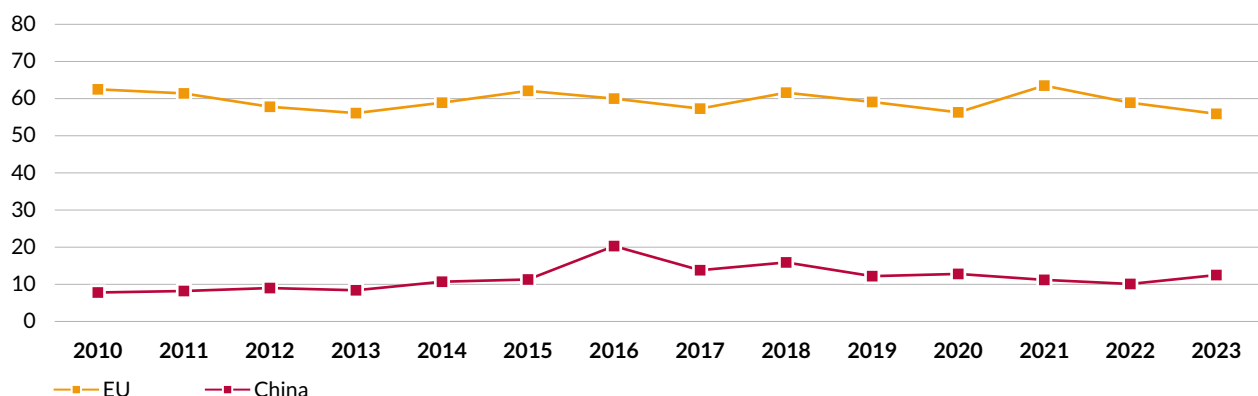
financial sanctions will remain an integral part of the EU's geoeconomic toolkit.

## 2.2 The EU vs China

China's overall level of interconnectivity with the EU's neighbours is still considerably lower than the EU's (Figure 5). However, as Russia and the US have been decreasing their interconnectivity with the region compared to the EU, China's presence in the region has become relatively more pronounced. In fact, China became the third-biggest power in the region in terms of scores for the trade interconnectivity sub-index, having overtaken Russia and almost the US, as well (Figure 1).

A closer look at different dimensions of interconnectivity shows that China has built its strongest ties with the region through targeted diplomatic and economic engagement, thereby positioning itself as the EU's main competitor. **Policy** interconnectivity began to rise markedly in 2014 (Figure 6). To support its investments in the region, China signed bilateral investment treaties with 12 EU neighbouring countries. In contrast to the EU, it largely refrained from imposing trade and financial sanctions in addition to maintaining relatively low mutual non-tariff trade barriers with these states. The apparent drop in the

FIGURE 5 GEOII scores for China and the EU over time



Source: Bertelsmann Stiftung GEOII

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policy sub-index in 2023 is likely overstated due to missing data for several indicators that year.

China's **trade** interconnectivity with the region is not very strong yet and lags far behind that of the EU. However, China's linkages with the region were becoming relatively stronger, with the value of the trade interconnectivity sub-index in 2023 being the highest with Albania, Jordan, Montenegro and North Macedonia. Compared to China, the EU remains a much more interconnected power in terms of trade with all the countries of the region apart from Armenia and Jordan; the US, however, appears to have lower trade connectivity than China with all the countries of the region apart from Bosnia and Herzegovina, Israel and Morocco.

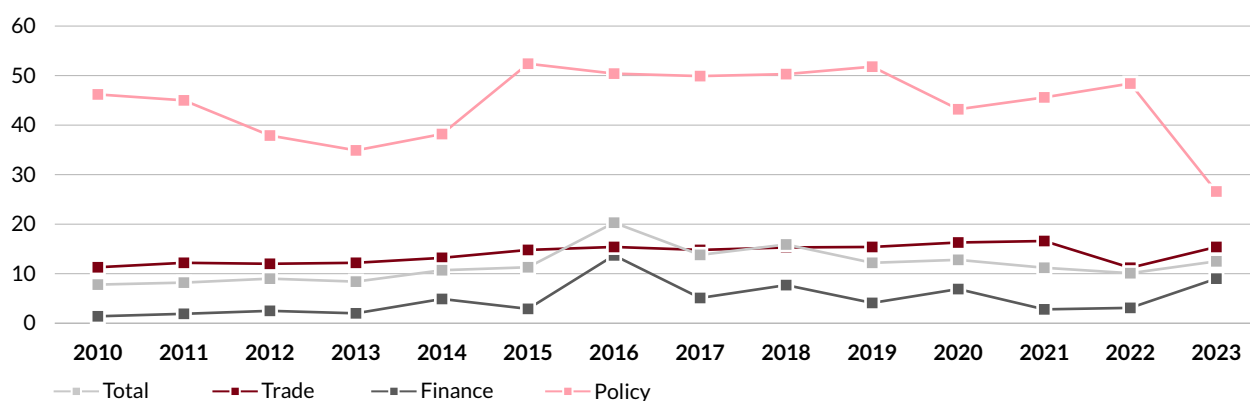
China's **financial** linkages with the region remain relatively weak regardless of the various strategic initiatives the country has pursued, such as EU 14+1 (formerly 17+1 from 2019 to 2021 and 16+1 from 2021 to 2022) and the Belt and Road Initiative (BRI). The stocks of FDI and external debt originating from China is still minor in comparison with those originating from the EU. However, as the value of capital pledged by China towards greenfield investment projects in the region has been rising rapidly in recent years, the country's financial connectivity with the region has risen, as well.

The degree of China's interconnectivity varied greatly between the sub-regions over time, as can be seen by the significant volatility in the value of the sub-index (Figure 7). In 2016, there was a visible spike in China's GEOII scores for all the sub-regions apart from the Western Balkans, which corresponds to the period of the most active implementation of the BRI (Ghiretti et al. 2023). Although Türkiye reached the highest level of interconnectivity with China that year, its economic ties with the country significantly weakened over the next several years. Similar decreases in economic interconnectivity after 2016 were also observed in the Southern and Eastern neighbours.

Among the sub-regions, China has the strongest interconnectivity with Türkiye, although the Southern neighbours and the Western Balkans are not far behind, suggesting that China is likely equally interested in building up its relations with all three of these sub-regions. The Eastern neighbours, which became the most interconnected sub-region in 2020, appear to have been going through a rapid economic decoupling from China as part of a trend that can be observed in all countries of the sub-region apart from Belarus and Georgia.

However, zooming in on the individual countries reveals that several countries in the region stand out as

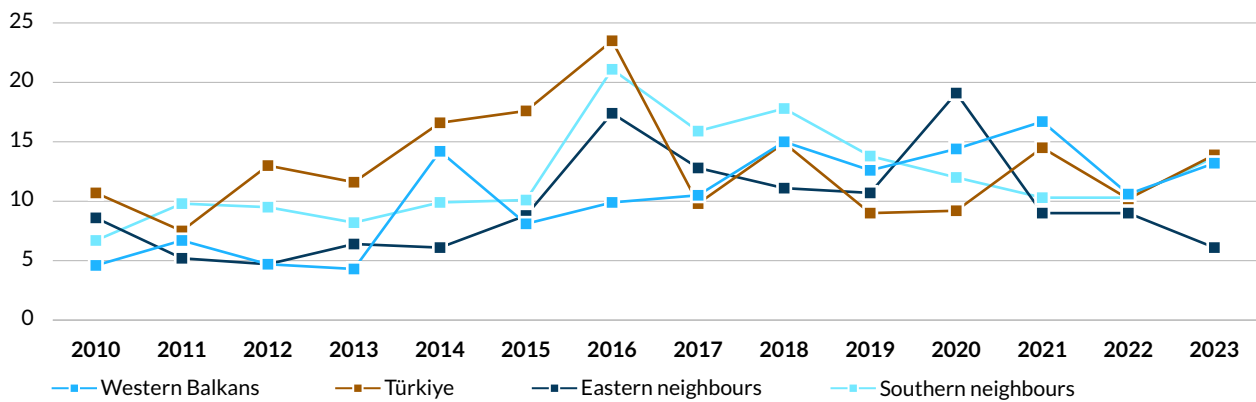
FIGURE 6 GEOII scores for China over time, total and by sub-index



Source: Bertelsmann Stiftung GEOII

| BertelsmannStiftung

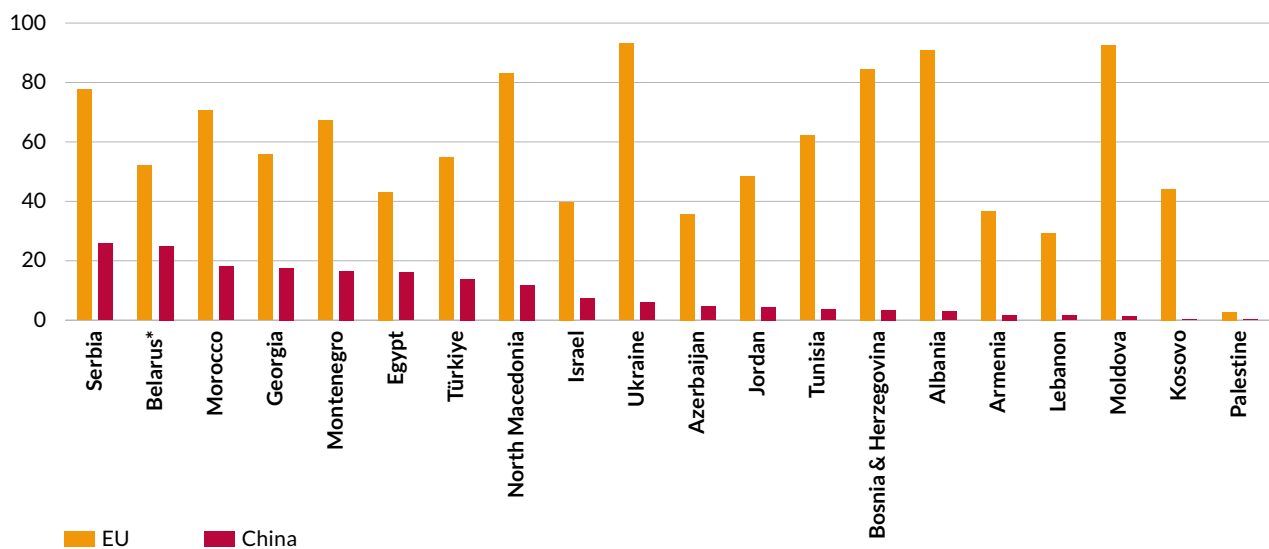
FIGURE 7 GEOII scores for China over time, by sub-region



Source: Bertelsmann Stiftung GEOII

| BertelsmannStiftung

FIGURE 8 GEOII scores for the EU and China by EU neighbour in 2023



\* The GEOII values for Belarus are from 2022.

Source: Bertelsmann Stiftung GEOII

| BertelsmannStiftung

the most interconnected with China. In 2023, among all the countries of the region, Serbia had the highest value for trade interconnectivity with China in the GEOII, which was almost twice as high as that of Türkiye (Figure 8). Apart from Serbia, Montenegro (Western Balkans), Morocco and Egypt (South-

ern neighbours), and Georgia and Belarus (Eastern neighbours) all had a higher degree of interconnectivity with China than Türkiye.

The EU has much higher interconnectivity with all its neighbours than China. The narrowest gap between

their levels of interconnectivity in 2023 was in Belarus and Egypt. The gap has been narrowing recently in these two countries as well as in Montenegro, Morocco, Serbia and Türkiye.

## 2.3 The EU vs Russia

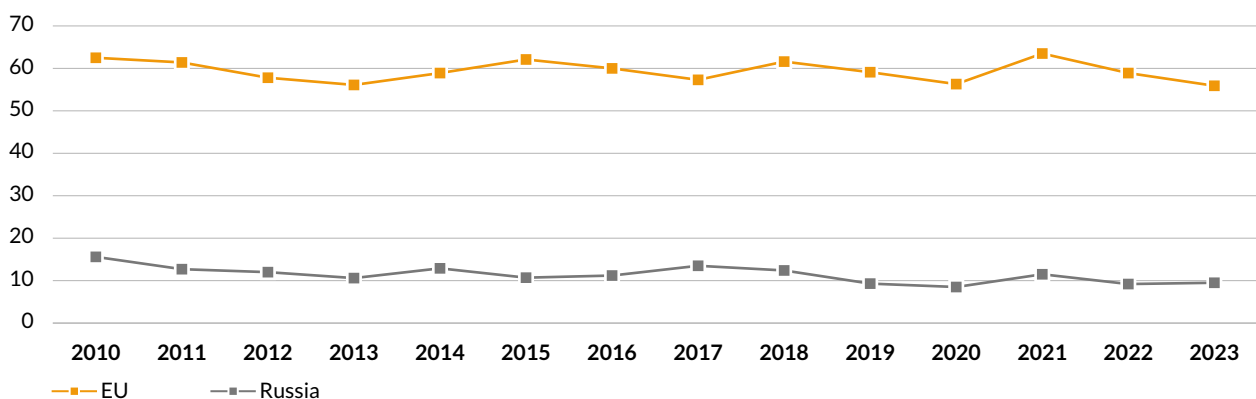
Overall, of the four powers in question, Russia is the weakest EU competitor in the neighbourhood region (Figure 1). This is primarily due to Russia's particularly low financial interconnectivity with the region. In contrast, in terms of policy interconnectivity, Russia is far ahead of both China and the US in addition to being the main challenger to the EU. However, Russia's interconnectivity with the EU's neighbours was mostly experiencing a downward trajectory during the 2010–2023 period. The decline of interconnectivity with the neighbourhood region reflected the ongoing reorientation of economic relations of many neighbourhood countries towards other global powers.

Unsurprisingly, the main sub-region in which Russian influence and EU–Russia competition have been particularly strong is the Eastern neighbourhood (Figure 10). This is due to its geographic proximity to Russia, its shared Soviet history, and the various forms of formal economic integration between some

of these countries and Russia. Belarus and Armenia are members of the Russia-led Eurasian Economic Union, and the former is even part of a formal “Union State” with Russia. Nevertheless, until 2020, Russia's interconnectivity with Eastern Neighbourhood countries was generally declining, and it was only in 2021 that the trend appears to have partially reversed (Figure 10). However, the revival in the interconnectivity did not last long, as Russia's full-scale invasion of Ukraine in 2022 caused the power's economic ties with the sub-region – primarily with Ukraine and Moldova – to deteriorate further.

Russia's interconnectivity with the neighbourhood countries has been the strongest in terms of **policy** (Figure 11). The power has had much lower non-tariff barriers than the EU and has applied (formal) trade restrictions as well as finance and trade sanctions at a much lower scale than the EU and the US. Until 2022, policy interconnectivity exhibited no clear trend, although it was subject to marked short-term fluctuations. However, the beginning of the full-scale war in Ukraine brought about a noticeable decline in Russia's policy interconnectivity between 2022 and 2023 due to the intensification of the EU accession process in Georgia, Moldova and Ukraine as well as a decrease in arms transfers. Between 2020 and 2023, Russia's share in the region's total arms imports plummeted sharply, as only Be-

FIGURE 9 GEOII scores for Russia and the EU over time

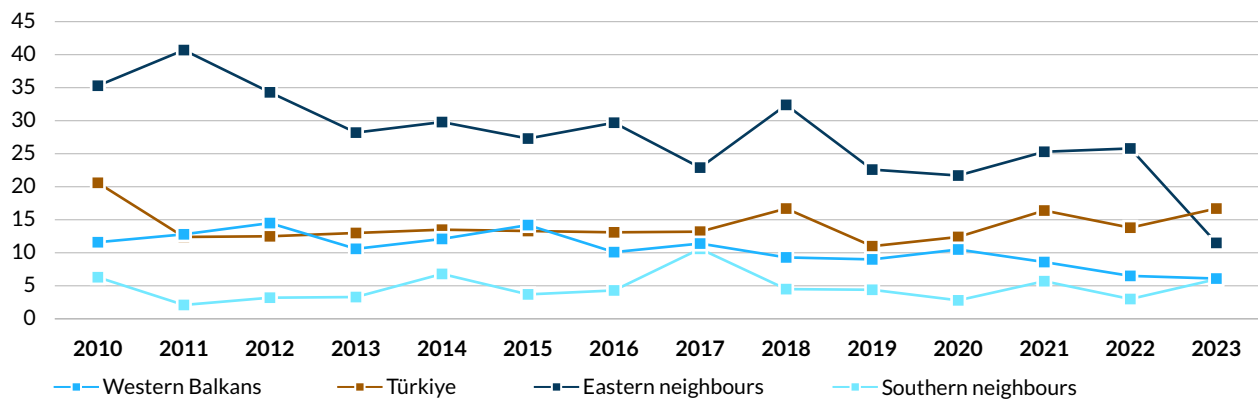


Source: Bertelsmann Stiftung GEOII

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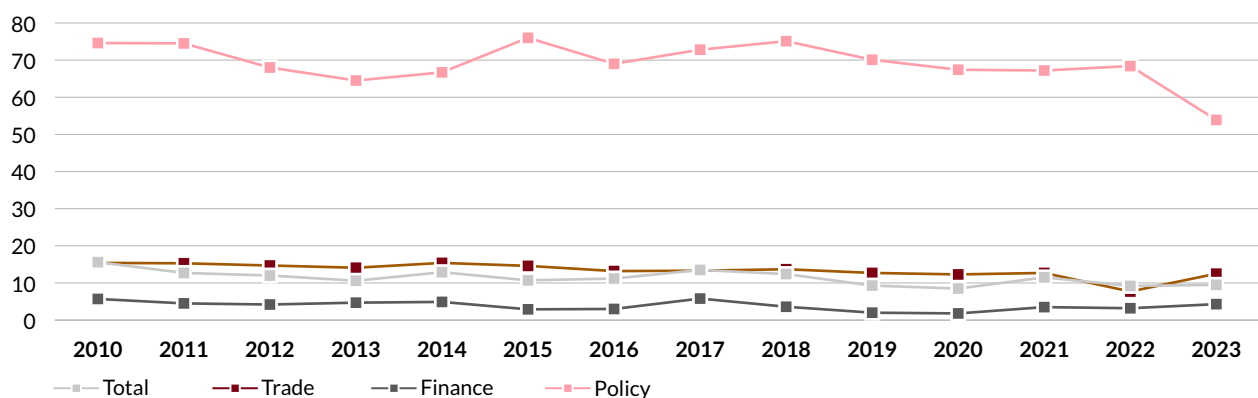
FIGURE 10 GEOII scores for Russia over time, by sub-region



Source: Bertelsmann Stiftung GEOII

| BertelsmannStiftung

FIGURE 11 GEOII scores for Russia over time, total and by sub-index



Source: Bertelsmann Stiftung GEOII

| BertelsmannStiftung

larus and Algeria continued to receive Russian weapons. Given that Russia has been in the midst of a full-scale war and even forced to purchase weapons itself (from countries such as Iran and North Korea), this may not come as a big surprise.

Russia's **trade** interconnectivity with neighbourhood countries has been much lower than the policy one. However, it appears to have slightly increased between 2022 and 2023, primarily owing to an increase in Russia's agri-food exports to the neighbourhood countries. By 2023, Russia's share in the total agri-

food imports of the region reached the highest value during the period surveyed. This may partly reflect the displacement of Ukrainian agricultural exports via maritime routes, which were particularly significant for the countries of the Middle East and North Africa (MENA) as well as the broader Middle East prior to the war but were largely obstructed by Russian naval forces during the first year of the conflict. Partial relief was provided through the establishment of a Black Sea corridor agreement, which was brokered with the mediation of Türkiye. That same year, Russia was also able to increase its exports of energy

goods to Azerbaijan, Tunisia and Türkiye as well as of CRMs to Armenia, Egypt, Georgia and Türkiye. The country has restored its position as the top supplier of CRMs to the EU's neighbours.

**Financial** interconnectivity has persistently been the weakest one among the three sub-indices. Russia has abstained from significant investment in the region, as reflected across all the investment indicators of the finance sub-index. As a result, Russia's share in the region's inward FDI stock decreased in the 2010–2023 period.

## 2.4 The EU vs the US

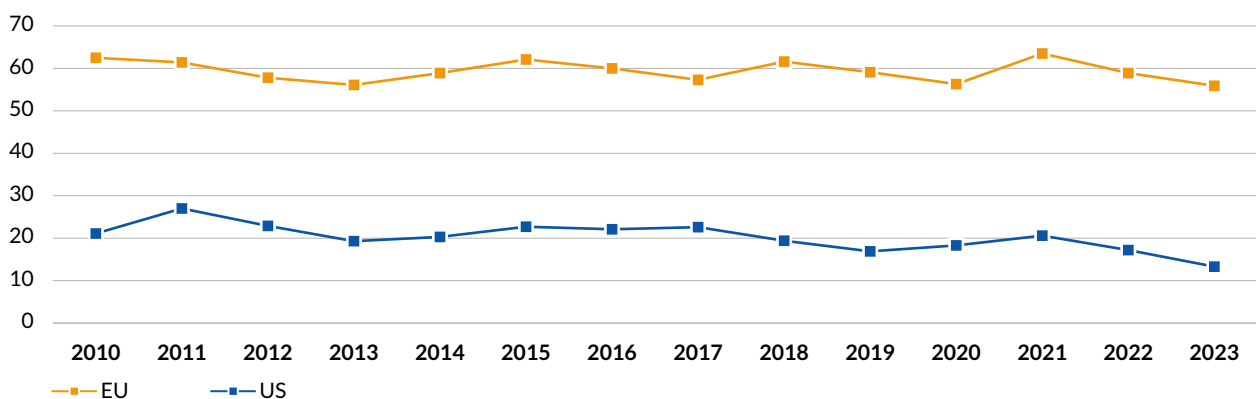
In a previous study (Bertelsmann Stiftung ed 2023), we tended to view the US as a partner rather than a rival of the EU among the powers. Given the current US administration, this can no longer be taken for granted. The EU appears to increasingly stand alone in its rivalry with China and Russia over geopolitical and geoeconomic influence in the region, as the US has been gradually decreasing its interconnectivity with the EU's neighbours since 2017, reflecting the evolving pivot of its foreign policy (Figure 12).

Alongside Türkiye, the countries of the Southern Neighbourhood have the strongest economic

ties with the US compared to the other sub-regions, though these remain limited relative to the EU's presence (Figure 13). Türkiye's position reflects several key factors, including: an existing bilateral investment treaty; the absence of non-tariff measures (NTMs) and financial sanctions from the US; and periods of increased monetary policy alignment (notably in the 2010–2014 and 2017–2020 periods). Similar factors have helped the US to maintain a relatively stronger role in parts of the Southern Neighbourhood. Furthermore, in the case of Türkiye, the spikes in 2017 and 2020 reflect significant inflows of green-field investment.

In contrast, the US has a much weaker economic presence in the Western Balkans, largely due to the lack of strong financial and trade ties. The region remains far more interconnected with the EU, which plays a dominant role in shaping its economic landscape. Even in Ukraine and the broader Eastern Neighbourhood, where the US has become a crucial provider of financial and military assistance since 2022, overall economic interconnectivity remains limited and has been declining. While security cooperation has intensified, economic ties have not expanded at the same pace, leaving the EU as the region's main external partner.

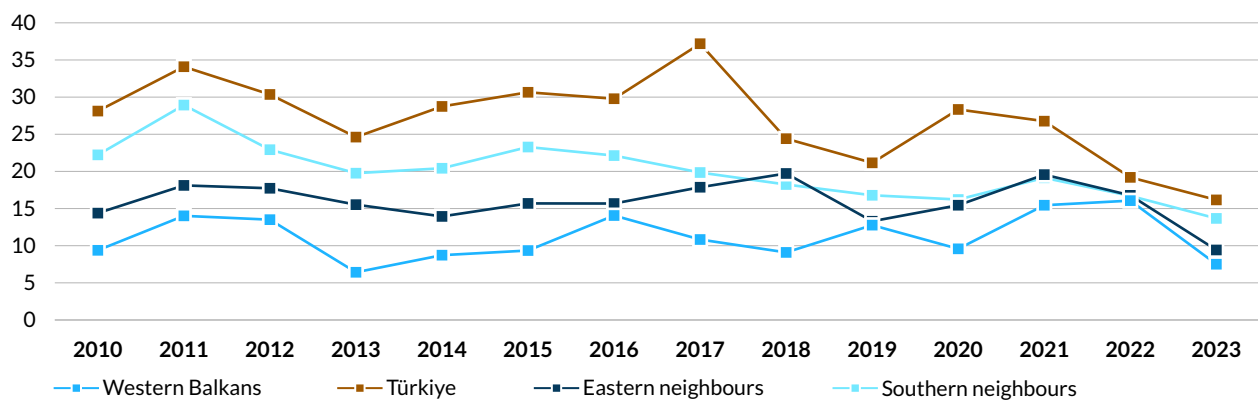
FIGURE 12 GEOII scores for the US and the EU over time



Source: Bertelsmann Stiftung GEOII

| BertelsmannStiftung

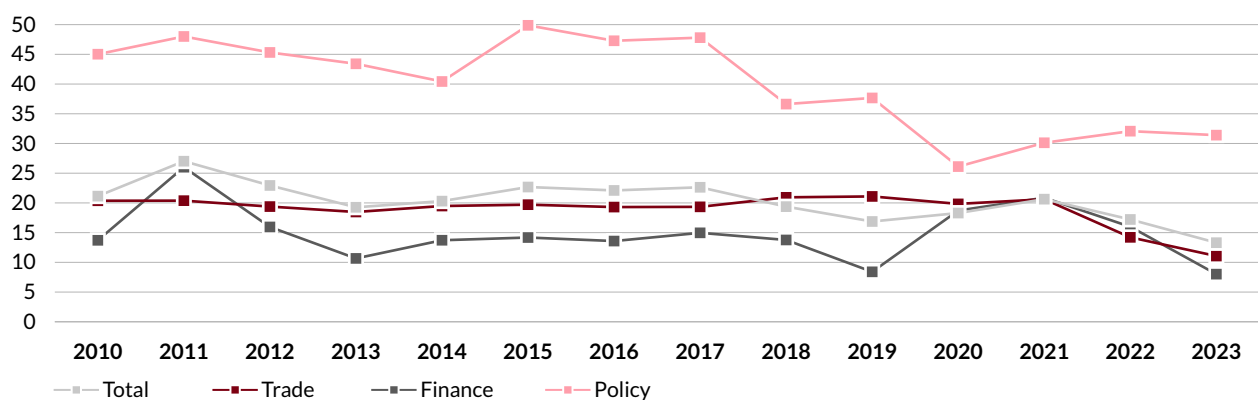
FIGURE 13 GEOII scores for the US over time, by sub-region



Source: Bertelsmann Stiftung GEOII

BertelsmannStiftung

FIGURE 14 GEOII scores for the US over time, total and by sub-index



Source: Bertelsmann Stiftung GEOII

BertelsmannStiftung

Although the overall GEOII score has been on a downward trajectory since 2017, the **policy** sub-component stands out as maintaining the highest values by far (Figure 14). Several factors explain this resilience. For example, the absence of major trade sanctions and restrictions have contributed to stable policy ties, and bilateral investment treaties have also played a role in maintaining economic relations.

More recently, synchronised monetary policy has strengthened policy interconnectivity. Addition-

ally, arms transfers have become a significant driver in the past few years. Since 2022, military aid to Ukraine has surged, while arms transfers to the Southern Neighbourhood have also increased noticeably. Thanks to these factors, and especially to military cooperation and monetary policy synchronisation, the policy sub-component has not experienced the same sharp decline as other areas in the post-2021 period.

The US' interconnectivity with the EU's neighbours for **trade** and **finance** interconnectivity is much

weaker than for policy. The geographic factors are likely a key reason for a much lower degree of trade connectivity with the region compared with the EU, as US investment in the region was just a fraction of EU investment. This manifested itself in a very low integration of the region in the US' production chains. With the onset of Russia's full-scale invasion of Ukraine, there was a sharp reduction in both financial and trade ties between the US and the region, reflecting the increased security risks for economic activity in (parts of) the region as well as shifting geopolitical priorities.

## 3. Interconnectivity between the powers and the sub-regions

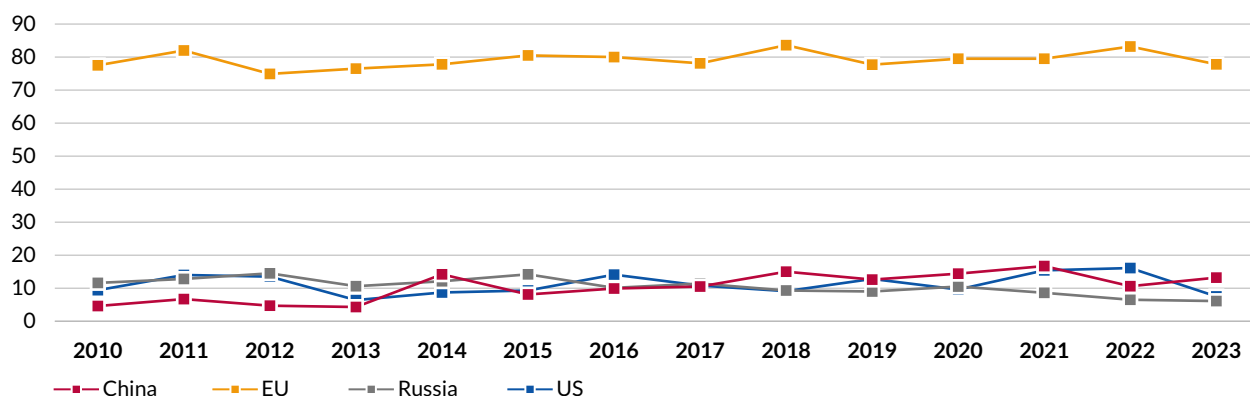
### 3.1 Western Balkans

The Western Balkan region (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia) is far more closely interconnected with the EU than with any other major power. The GEOII score for the EU is more than five times higher than for the other powers. The Western Balkans' inter-connectedness with the EU has been remarkably stable over the past decade, with just minor occasional fluctuations. China has emerged as the second most interconnected power with the Western Balkans. In fact, this interconnectedness has been growing for the entire decade and has surpassed those of both the US and Russia over the last five years, driven mainly by the stronger linkages between China and Serbia. Like the US, Russia has been on a downward trajectory for the entire decade (Figure 15).

Albania has the strongest interconnectedness with the EU, followed by Bosnia and Herzegovina as well as North Macedonia. Serbia and Montenegro are slightly below, while Kosovo – perhaps somewhat unexpectedly – has the weakest ties to the EU of all the economies in this sub-region. At the same time, Kosovo's interconnectedness with the EU is also the most volatile due to sharp fluctuations in some of the individual indicators, although this may be due to poor data quality. Looking at the interrelations with China, Serbia – having rather close political ties with China – ranks first when it comes to the GEOII, too, followed by Montenegro and North Macedonia. The three remaining economies have much smaller inter-connectedness with China (Figure 16).

The EU remains the power most interconnected with the Western Balkans across all the areas (i.e. trade,

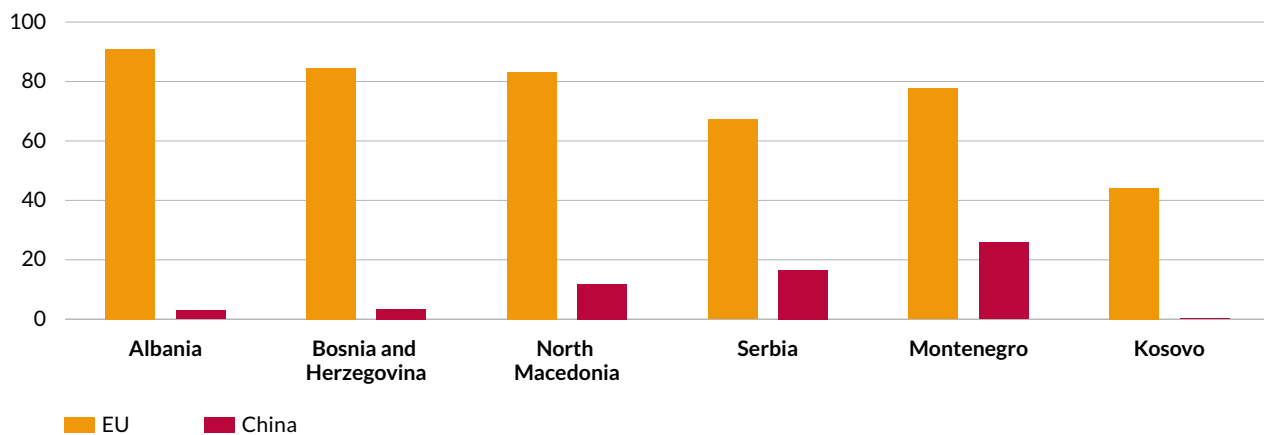
FIGURE 15 GEOII scores for the Western Balkans over time



Source: Bertelsmann Stiftung GEOII

| BertelsmannStiftung

FIGURE 16 GEOII scores for the individual Western Balkan countries' interconnectivity with the EU and China in 2023



Source: Bertelsmann Stiftung GEOII

| BertelsmannStiftung

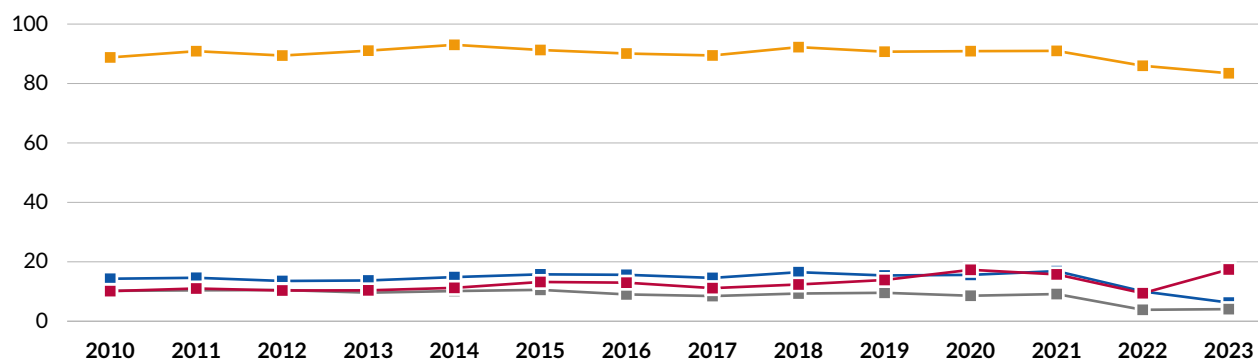
finance and policy), although there are notable differences within each of the sub-areas (Figure 17). In terms of **trade**, the EU's linkages with the sub-region have declined in recent years – not only in Serbia but also in Bosnia and Herzegovina, Montenegro and even Kosovo. Meanwhile, interrelations with China have steadily increased in nearly all the countries, reflecting China's increasing stronger role in the global economy and trade.

In terms of **finance**, the EU remains the most interconnected power, maintaining a stable pattern over time. However, China's influence has been growing due to stronger FDI and infrastructure investment, particularly in Serbia. In the last several years, China has emerged as the top foreign investor in Serbia as part of its global BRI, which sees Serbia as a strategic gateway to the European market (Holzner 2022; Jovanović 2024). The traditionally friendly political ties between China and Serbia, which date back to the Yugoslav era, have also played a role in this (Vangeli 2023; Jovanović and Stojadinović 2025). In contrast, US financial interconnectedness has sharply declined in recent years due to lower US FDI in the sub-region as well as infrastructure investment.

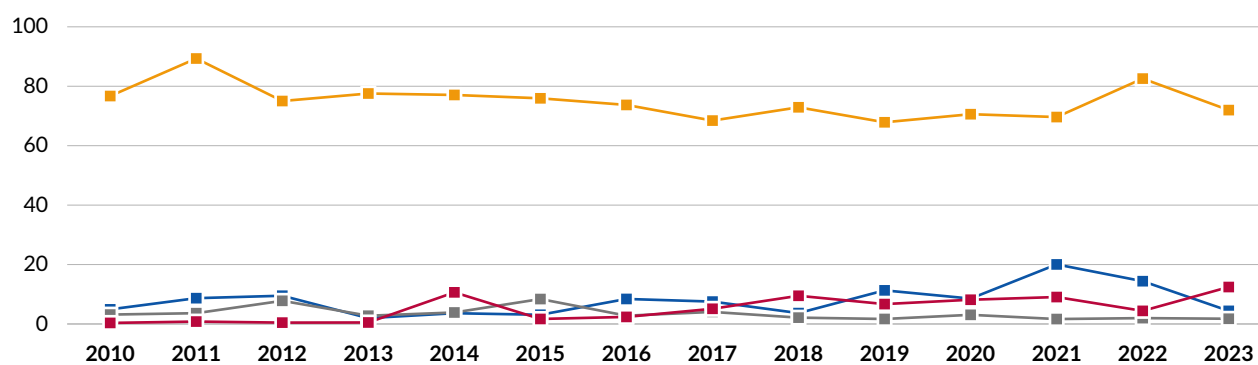
In terms of **policy**, the EU remains the most closely connected power, although it has been on a downward trajectory since 2018, when it peaked. Interestingly, the gap with the other powers is smaller in the policy area, with Russia being in second place. The good position of Russia and, to a lesser extent, of China is due to the lack of NTMs from these two powers as well as the absence of sanctions and trade restrictions. Nevertheless, the policy interconnectivity of the Western Balkans with China and Russia has declined in recent years due to monetary policy divergence. On the other hand, interrelations with the US have strengthened somewhat, mostly due to monetary and fiscal policy similarity, which has brought the US close to China and Russia in terms of their scores for policy interconnectedness.

FIGURE 17 GEOII scores for the Western Balkans over time, by sub-index

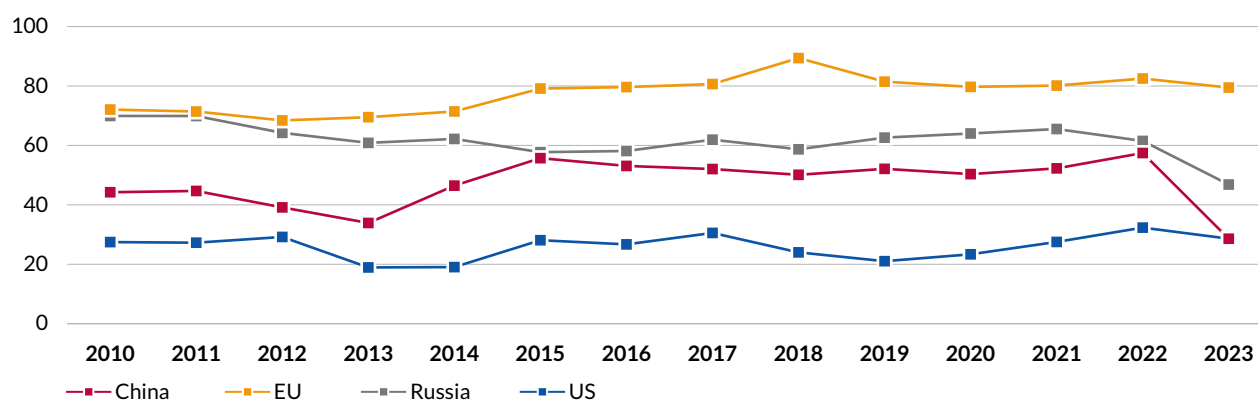
## Trade



## Finance



## Policy



Source: Bertelsmann Stiftung GEOII

| BertelsmannStiftung

## 3.2 Eastern neighbours

The Eastern neighbours (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine) are more interconnected with the EU than with any other power, and this interconnectivity has risen significantly compared to the other three powers since 2014, when Russia invaded Crimea and initiated the military conflict in Ukraine's eastern Donbas region (Figure 18). In 2023, there was a marked increase in the degree of interconnectivity between the EU and the sub-region, as Brussels has intensified the process of EU enlargement in response to Russia's full-scale invasion of Ukraine by offering candidate status to Georgia, Moldova and Ukraine. The interconnectivity was strengthened across all the areas – trade, finance and, most significantly, policy.

As of 2023, the EU's interconnectedness with the sub-region largely mirrors the intensity of political relations, being led by Ukraine and closely followed by Moldova. Georgia holds third place, although its interconnectedness is at a much lower level. Azerbaijan's interconnectivity with the EU is the lowest among the six Eastern neighbours.

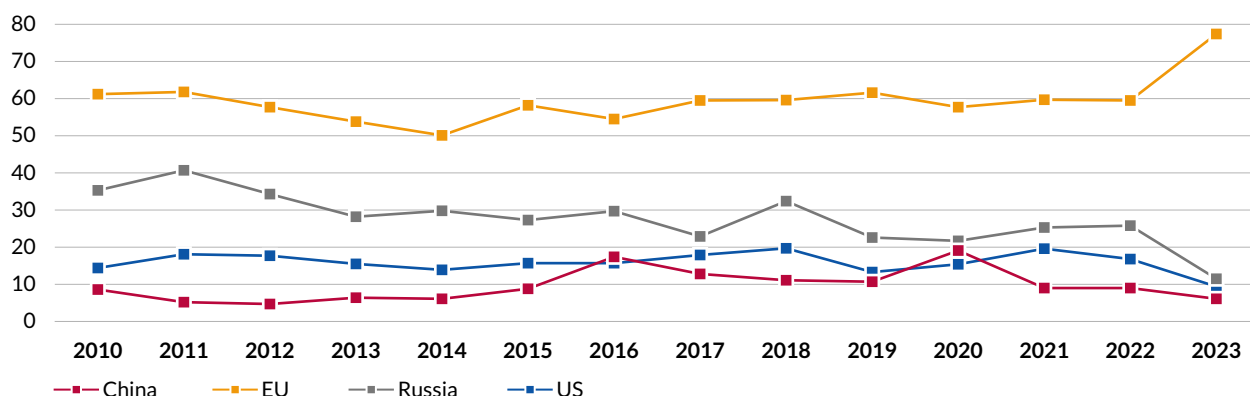
Russia is the second most interconnected power with the sub-region, but its interconnectivity declined significantly during the 2011–2023 period, in which

the gap with the EU more than doubled. Russia only outperforms the EU in terms of the strength of economic ties with Armenia and Belarus (Figure 19). Azerbaijan has become Russia's third most important partner in the sub-region, having replaced Ukraine, which held third place in 2010.

Neither China nor the US has strong economic linkages with the sub-region (Figure 18). Overall, the US' interconnectedness with the EU's Eastern neighbours has been rather stable throughout the period of our analysis, whereas China managed to strengthen its relative position in the sub-region in roughly the 2016–2020 period, but then the trend reversed itself. Starting in 2021, China appears to have been mostly retreating from the sub-region, except for Belarus and to a smaller extent Georgia, where the interconnectivity index values remained in the double-digit range.

The EU is by far the power most interconnected with the sub-region in terms of **trade**, and trade linkages have been increasing steadily since 2012 (Figure 20). Ukraine has developed the closest trade relations with the EU among the Eastern neighbours, having strengthened the trade connectivity significantly in the 2022–2023 period, following Russia's full-scale invasion of the country. In contrast, Russia shows a strong declining trend (almost the mirror image of the EU's), primarily because many of its economic

FIGURE 18 GEOII scores for the EU Eastern neighbours over time

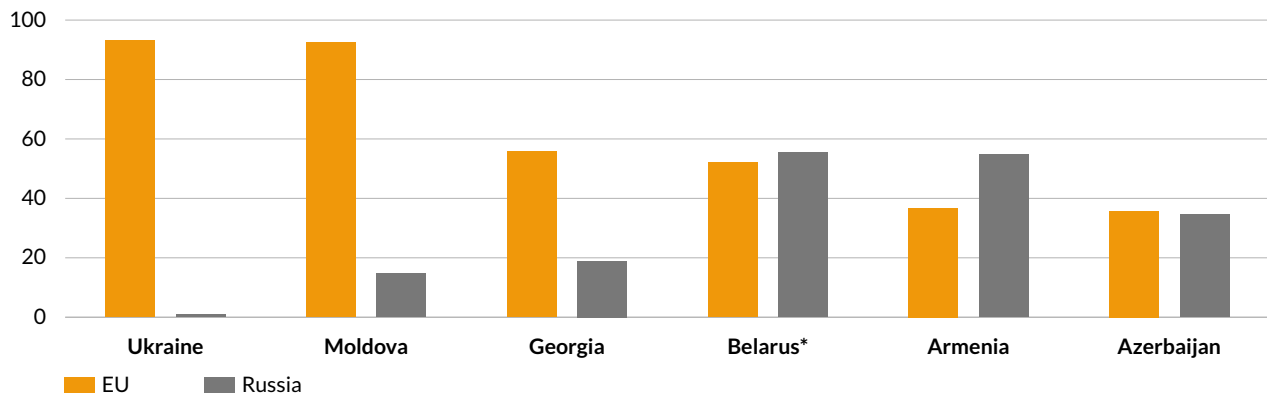


Source: Bertelsmann Stiftung GEOII

| BertelsmannStiftung



FIGURE 19 GEOII scores for the individual EU Eastern neighbours' interconnectivity with the EU and Russia in 2023



\*Note: GEOII scores for Belarus are for 2022.  
Source: Bertelsmann Stiftung GEOII

| BertelsmannStiftung

ties with Moldova and Ukraine were cut. In the 2010–2023 period, Armenia was the only place where the EU lost its position in terms of trade connectivity to Russia, with the result that Russia now has stronger trade linkages with the country than the EU – at least partly because of Russia's efforts to evade sanctions. China's trade interconnectivity with the sub-region has been gradually increasing over the years, with the trade linkages being the strongest with Belarus, Armenia and Ukraine. The connectivity particularly strengthened due to rising imports from China, especially of high-tech imports, as well as rising exports of agri-food products to China.

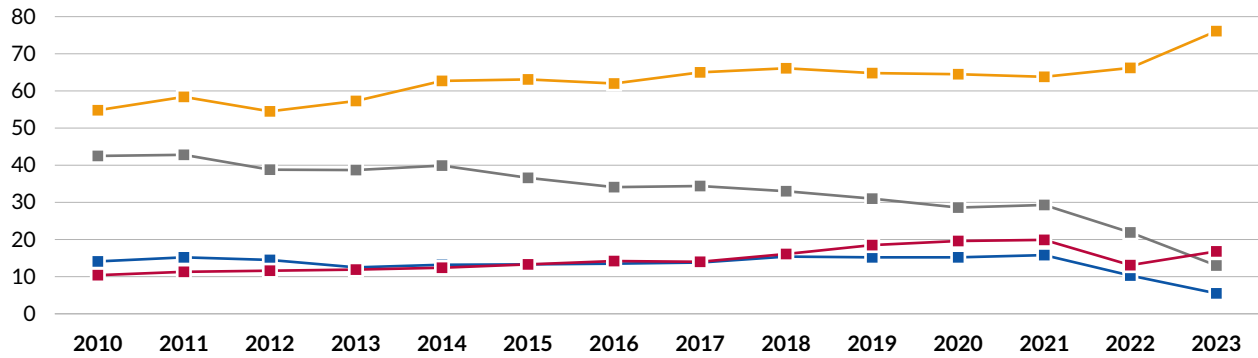
The EU is also by far the power most interconnected with the sub-region in terms of **finance**, with a significant deepening of connectivity since 2019, especially via growing greenfield investment in infrastructure and external debt accumulation. Russia's financial interconnectivity has also grown since 2020, although this is primarily due to an increase in the financial linkages with Belarus and, to a lesser extent, with Armenia and Georgia, whereas Moldova and Ukraine have decreased their financial exposure to Russia to a negligible level. The US has seen a decline in its financial linkages with the EU's Eastern neighbours since 2021, as it has scaled down green-

field investment projects in the sub-region. However, the decline is likely to have been less dramatic than the sub-index suggests, as it does not capture the US' financial assistance to the Eastern neighbours in the form of grants, which became quite sizeable in the case of Ukraine in 2022 and 2023. Although illicit financial flows play an important role in the sub-region (and have often crowded out conventional finance), they cannot be included in our analysis owing to their nature.

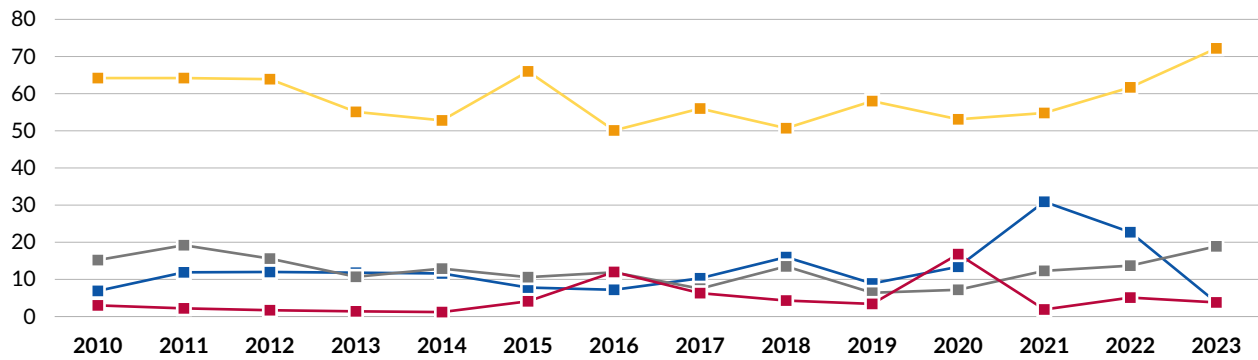
When it comes to **policy** interconnectivity, Russia had the highest values for the sub-index over the entire period. Russia's traditionally high scores in this area have reflected lower non-tariff barriers and a limited use of formal trade restrictions as well as financial and trade sanctions despite its repeated weaponisation of trade, investment and migration flows. However, the EU started catching up with Russia in 2014, primarily owing to its increased policy connectivity with Ukraine and Moldova. The two countries have been approximating their policies to those of the EU pursuant to the terms of their obligations under the respective association agreements (AAs) and deep and comprehensive free trade areas (DCFTAs). Among the four powers, Russia still retains the strongest policy interconnectivity with Armenia,

FIGURE 20 GEOII scores for the EU Eastern neighbours over time, by sub-index

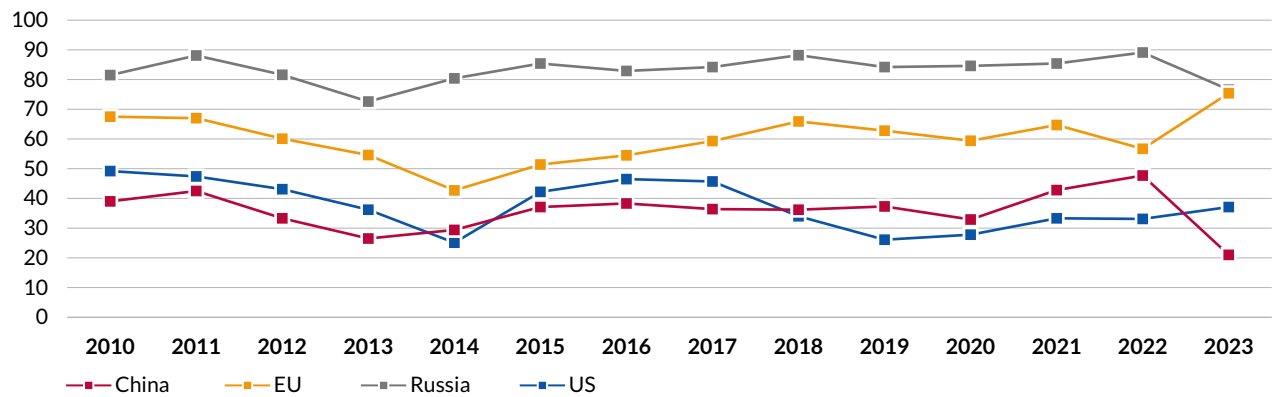
### Trade



### Finance



### Policy



Source: Bertelsmann Stiftung GEOII

BertelsmannStiftung

Azerbaijan and Belarus. Both China and the US significantly lag behind the EU and Russia in terms of their policy interconnectivity with the sub-region.

### 3.3 Türkiye

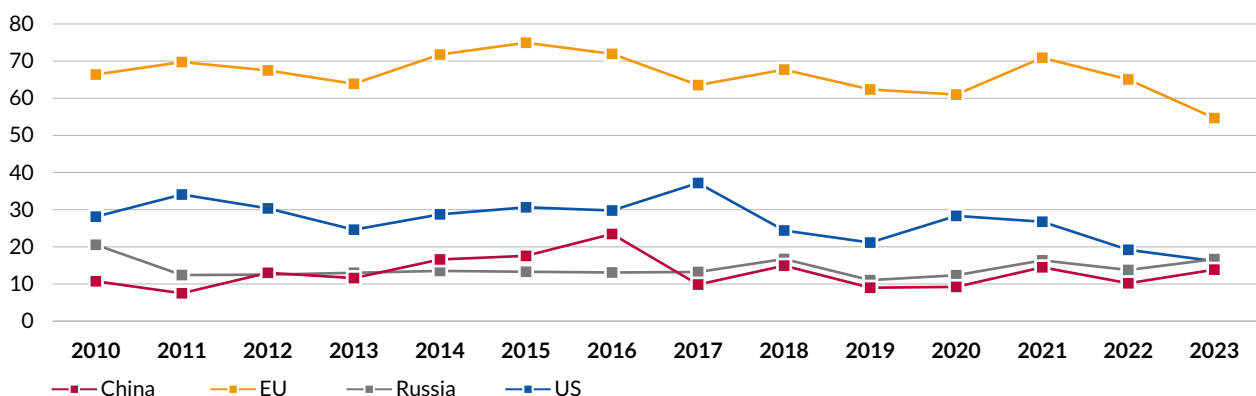
The EU remains by far the power most interconnected with Türkiye, maintaining its status throughout the observed period (Figure 21). While Türkiye did not significantly shift its alignment towards other major powers, both China and Russia have strengthened their geopolitical and geoeconomic interconnectedness with Türkiye since the 2019–2020 period.

**Trade** remains the strongest pillar of EU–Türkiye interconnectedness (Figure 22). Since 1995, the two have been bound by a customs union (CU) covering industrial goods and processed agricultural products. This arrangement has significantly boosted bilateral trade over the years. Despite these strong trade ties, both sides acknowledge the need to modernise the agreement to address existing inefficiencies – particularly those stemming from non-tariff barriers – and to consider extending it to include unprocessed agricultural products. A further challenge is the asymmetry inherent in the CU. For example, when the EU signs a new free trade agreement (FTA), Türkiye is required to lower its tariffs for the EU’s new

partner country, yet that country is under no obligation to reciprocate. Resolving this imbalance remains a key priority for Türkiye. In addition, the EU continues to lead the other major powers in goods and services trade with Türkiye, underlining both the depth of the trading relationship and Türkiye’s reliance on access to the EU market.

Although the EU remains Türkiye’s most important trading partner overall, its relative position has weakened in certain strategic sectors. Most notably, the EU’s role in forward supply chain integration with Türkiye has declined. While no single actor has fully replaced it, both China and Russia have gained ground. More critically, the EU’s share in Türkiye’s imports of CRMs, energy and high-tech goods has diminished. Russia now dominates Türkiye’s imports of energy and critical materials, while China leads in high-tech imports. A notable exception to this trend is Türkiye’s energy exports to the EU, which have grown substantially. Since 2016, Türkiye’s role as a transit country for petroleum products from Russia and Azerbaijan has driven a steady increase in energy exports to the EU – a trend that accelerated sharply following Russia’s full-scale invasion of Ukraine. Türkiye has effectively commercialised this role, importing mostly Russian but also Azeri and Iraqi petroleum products, branding them as “Turkish blend”, and re-exporting them to the EU.

FIGURE 21 GEOII scores for Türkiye over time

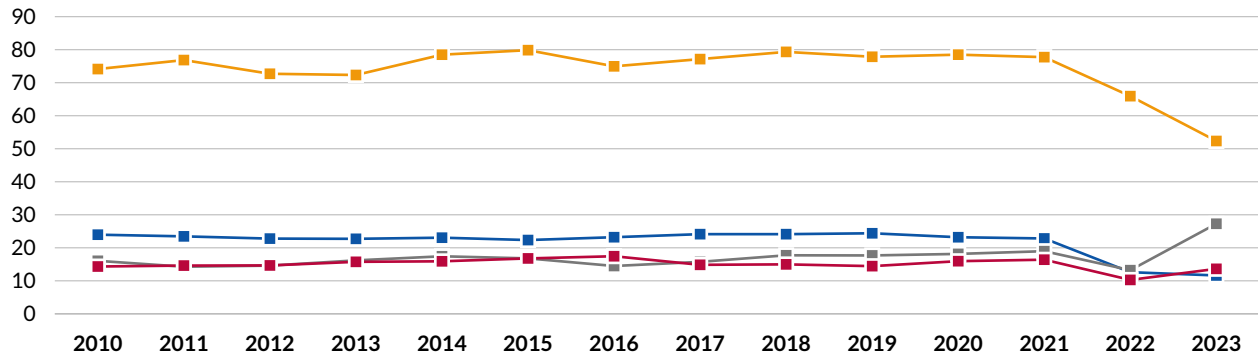


Source: Bertelsmann Stiftung GEOII

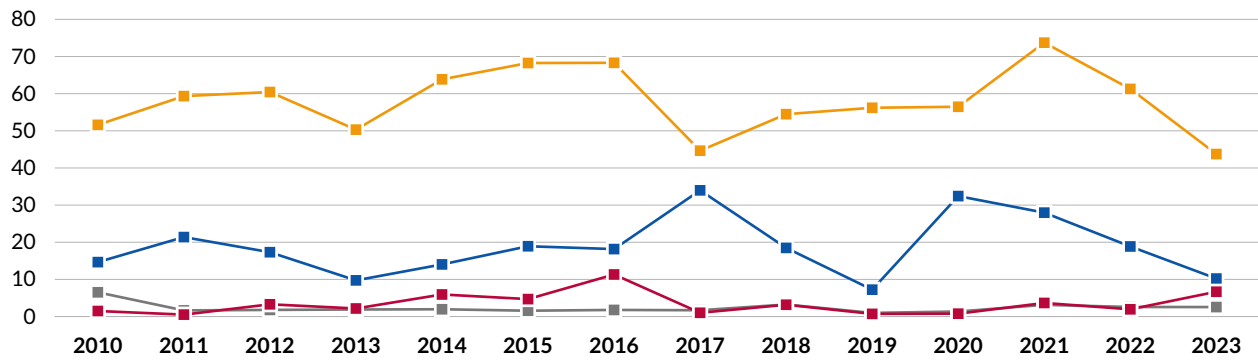
| BertelsmannStiftung

FIGURE 22 GEOII scores for Türkiye over time, by sub-index

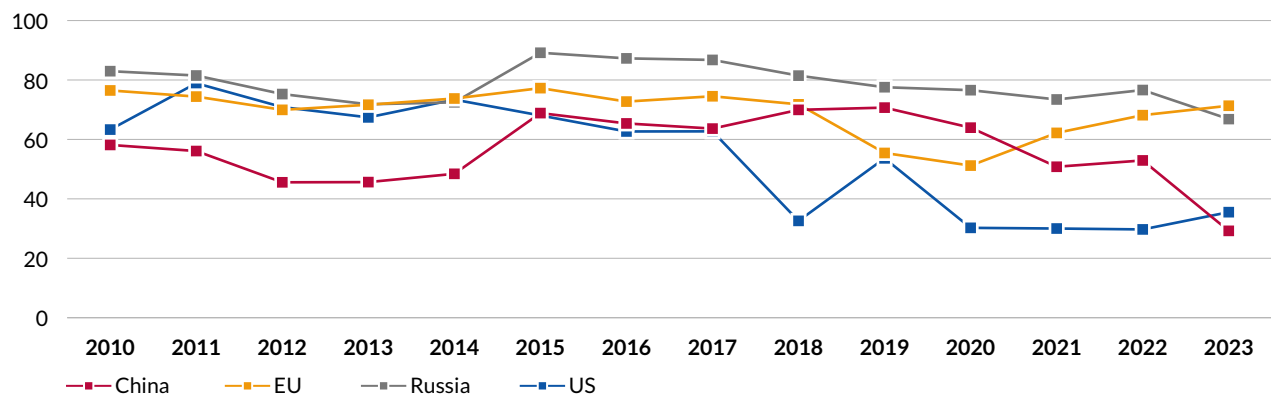
### Trade



### Finance



### Policy



Source: Bertelsmann Stiftung GEOII

BertelsmannStiftung

In terms of **financial** interconnectedness, the EU remains the power most interconnected with Türkiye, as it is the largest source of FDI and the biggest holder of its external debt, followed quite far behind by the US. While the EU leads in terms of the number of FDI projects in Türkiye, its position is less clear in terms of total capital invested, where the US and China occasionally surpass it. More broadly, foreign – and particularly Western – investor appetite for Türkiye has been relatively weak in recent years. This trend has largely been driven by the global economic slowdown, tighter external financial conditions following the COVID-19 pandemic, and the war in Ukraine. It also coincides with the peak of Türkiye's unorthodox economic policies,<sup>4</sup> which – combined with record-high inflation and political uncertainty – have made the country less appealing to Western investors.

Over the observed period, the EU has been the second most interconnected power with Türkiye in terms of **policy**, ranking behind Russia. Türkiye maintains its deepest trade policy connection with the EU through its CU, which ensures deeper regulatory and economic alignment, as well as through significant arms transfers from the EU to Türkiye. While the EU leads in most policy-related sub-indicators of interconnectedness, in terms of bilateral investment treaties, it lags behind both the US and Russia, with which Türkiye is better coordinated and aligned in terms of investment policies.

Over the observed period, the US had a relatively lower level of interconnectedness with Türkiye compared to the EU, and it was occasionally also lower than those of China and Russia. While it was once the second most connected major power with Türkiye, its relative position has weakened across multiple areas. This reflects a shift in US geopolitical priorities, widening policy differences – particularly in foreign af-

fairs – and Türkiye's adoption of a middleman strategy while in pursuit of strategic autonomy.

The US' lower level of interconnectedness with Türkiye is most evident in economic policy, with a declining level of monetary policy synchronisation compared to the other major powers. This is partly due to Türkiye's former unorthodox economic policies. The economic policy divergence spilled over into financial interconnectedness, leading to lower levels of FDI inflows from the US. In security cooperation, the US also lost its position as Türkiye's leading arms supplier, falling behind the EU, notably amid tensions over Türkiye's purchase of the Russian-built S-400 air defence system, which led to the blocking of a potential sale of F-16 fighter jets.

China's peak interconnectedness with Türkiye occurred in 2016 following Türkiye's signing of a BRI agreement in 2015. The most significant project involved a consortium of three Chinese state-owned enterprises – China Merchants Port Holdings, COSCO Pacific Limited and China Investment Corporation – which together acquired a 65% stake in Kumport Terminal for €829 million. Situated in Istanbul's Ambarlı district, the container terminal serves as a key transshipment hub, facilitating Black Sea trade and handling a substantial share of Istanbul's imports and exports.

Despite Türkiye's expectations of further Chinese investment after the Kumport deal, additional large-scale BRI projects failed to materialise. Economic instability and political uncertainties deterred China from expanding its presence at the time, leading to stagnation in China-Türkiye interconnectedness (Ghiretti et al. 2023). However, in 2023, China started ramping up its investments in Türkiye, driven by concerns over EU and US tariffs on Chinese goods, particularly on Chinese electric vehicles (EVs). This shift resulted in renewed economic engagement, with significant developments continuing into 2024. Key projects include Chinese automaker BYD's announcement of a \$1 billion EV production plant in Türkiye, Huawei's collaboration on 5G development, and Türkiye's application to join BRICS. China also

4 Between 2018 and 2023, Türkiye pursued a so-called “new economic model”, which prioritised economic growth through low interest rates and cheap credits. During this period, the Central Bank of the Republic of Türkiye (CBRT) repeatedly lowered its benchmark rate, keeping the real policy interest rate at a profoundly negative level despite mounting inflationary pressures.

strengthened its position in Türkiye's goods imports, becoming the leading supplier of green goods and high-tech imports, followed by the EU.

Over the years, the relationship between Russia and Türkiye has been volatile, driven by diverging interests in the regional conflicts, such as in Libya, Nagorno-Karabakh and Syria. Tensions hit a low point in 2015, when Türkiye shot down a Russian military jet, but relations gradually normalised thereafter. This normalisation led to strengthened economic and strategic cooperation, particularly in the military and energy sectors. Key developments since the beginning of this normalisation have included Türkiye's acquisition of Russian S-400 anti-aircraft missiles and several joint projects, such as the Akkuyu nuclear power plant and the TurkStream gas pipeline.

Russia's full-scale invasion of Ukraine in 2022 reshaped the geopolitical landscape. Türkiye maintained its economic ties with Russia and refrained from backing Western sanctions. However, this period only saw a limited increase in interconnectedness. The major improvements have come from trade, particularly energy imports from and agricultural exports to Russia. To a lesser extent, financial interconnectedness also increased, mainly through mergers and acquisitions (M&As) and increased Russian investment in Türkiye. Growing pressure from

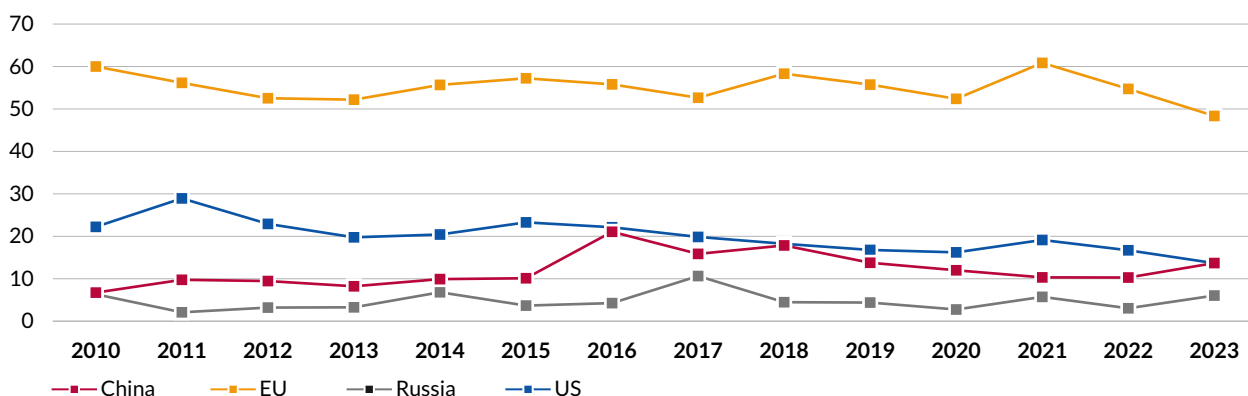
the US and the EU – the two powers with which Türkiye is most geopolitically interconnected – further complicated its relationship with Russia (Götken and Grieveson 2024). As a result, the deepening of interconnectedness with Russia came to a halt.

### 3.4 Southern neighbours

Despite a slight downward trend over time, the EU remains the geopolitical power most interconnected with the Southern Neighbourhood (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine and Tunisia), and the other major powers continue to trail far behind it (Figure 23).

The EU's interconnectedness with the Southern Neighbourhood is strongest in Morocco, Tunisia and Algeria. Overall, Palestine exhibits the lowest levels of interconnectedness with all the major powers among the countries in the sub-region, except for brief peaks with the US and the EU in 2018 and 2022, respectively. Although China is the second most interconnected major power with the region, its level of interconnectedness remains significantly lower than that of the EU. Within the region, Israel and Egypt exhibit the highest level of interconnectedness with China (Figure 24).

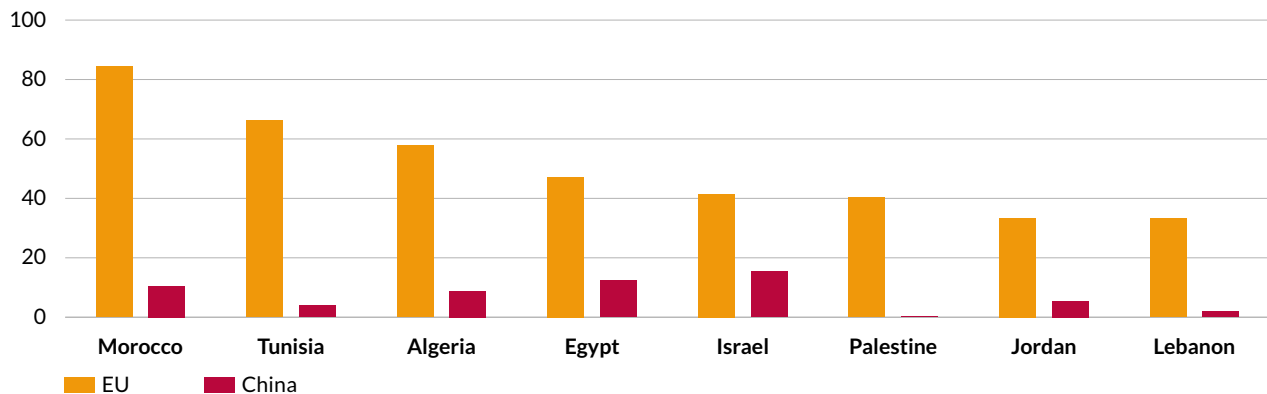
FIGURE 23 GEOII scores for the EU's Southern neighbours over time



Source: Bertelsmann Stiftung GEOII

| BertelsmannStiftung

FIGURE 24 **GEOII scores for the individual EU Southern neighbours' interconnectivity with the EU and China in 2022**



Note: Due to the lack of data for Algeria in 2023, we are presenting the total interconnectedness for 2022.  
Source: Bertelsmann Stiftung GEOII

| BertelsmannStiftung

**Trade** remains the area in which the EU is most strongly interconnected with the sub-region (Figure 25), surpassing all other major powers in goods and services trade, except in high-tech imports from among the major powers, which China dominates. Similarly, the EU leads in **financial** interconnectedness with the Southern neighbours, except Israel, with which the US has the highest degree of interconnectedness. The sub-region relies heavily on the EU for its external debt. The EU is also the main source of FDI for most countries in the sub-region, although the US maintains a strong presence in Israel. Palestine has the lowest interconnectedness with the EU across all indicators, except for financial interconnectedness. Occasional FDI inflows temporally increase its interconnectedness with the EU (as in 2022), which otherwise remains very low compared to those of the other countries in the sub-region.

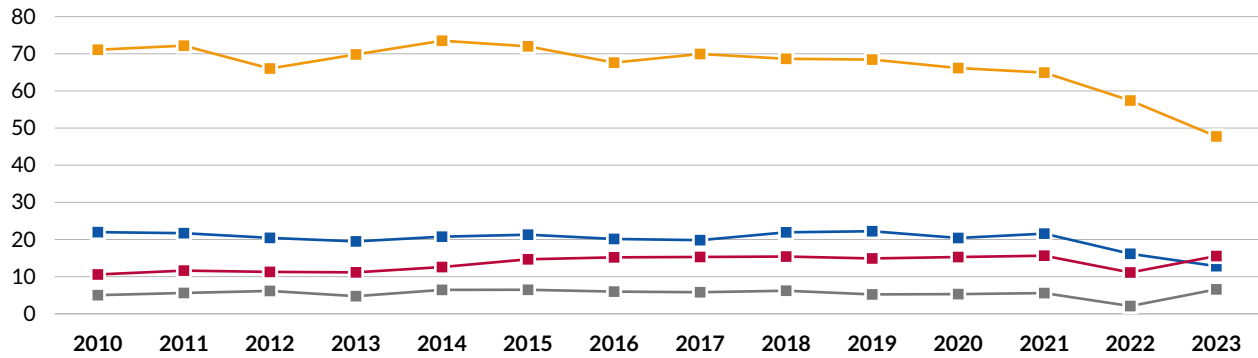
The EU is also the power most interconnected with the Southern Neighbourhood in terms of **policy**. Regarding FTAs, the EU remains more ambitious than the other major powers in fostering trade integration, having already secured AAs with all countries in the region. However, the EU's trade relationships are not as deeply integrated here as they are in the other sub-regions, and trade restrictions still limit

the scope of these agreements, resulting in relatively high average tariffs on imports and exports.

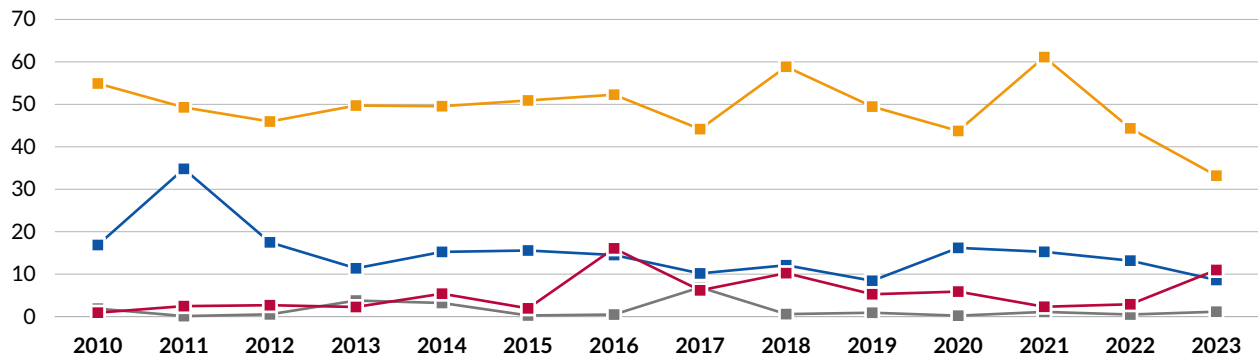
The EU's AAs with the sub-region are limited trade agreements that only cover industrial goods. Over time, some of these agreements have been updated to include certain agricultural and fisheries products (except for those with Algeria and Tunisia). However, even the updated AAs do not grant the agri-food products from the Southern Neighbourhood full tariff-free access to the EU market. The only exception here is Palestine. Progress in updating trade agreements has largely been limited by resistance from Southern Neighbourhood countries. Given the sub-region's significant trade deficit with the EU, it has been reluctant to pursue further liberalisation, preferring to protect domestic industries. At the same time, the stalled progress also reflects the EU's shifting priorities vis-à-vis the sub-region. Rising political instability resulting from the Arab Spring and the war in Syria led to larger flows of migrants, which became the EU's primary focus, leading it to shift its strategy towards the region from focusing on long-term objectives to pursuing short-term crisis-management efforts.

FIGURE 25 GEOII scores for the EU Southern neighbours over time, by sub-index

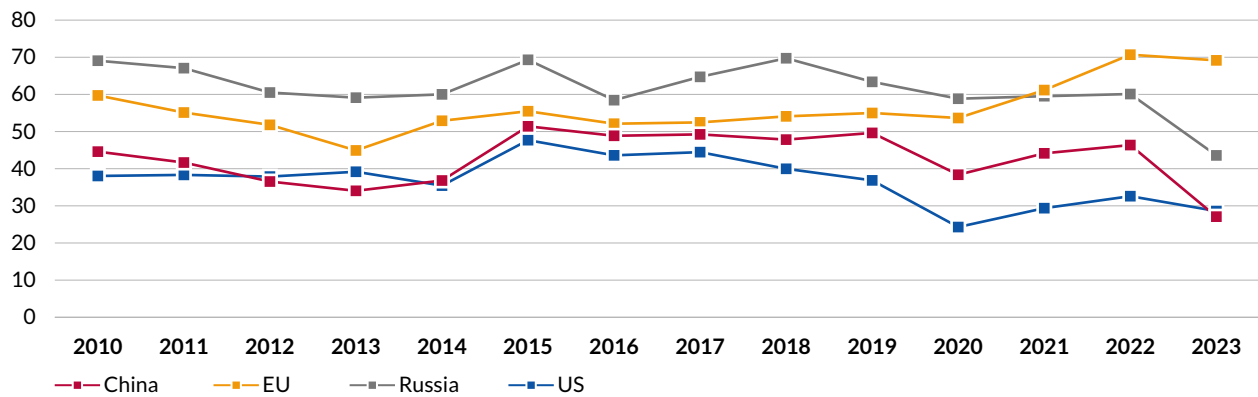
### Trade



### Finance



### Policy



Source: Bertelsmann Stiftung GEOII

BertelsmannStiftung



Besides trade integration, the EU also maintains leadership in transferring arms and military equipment to the sub-region (except for Algeria, where Russia and China are the main suppliers). However, in terms of monetary and fiscal policy synchronisation, the EU's interconnectedness with the region is weaker than those of the other major powers.

The US is the second most interconnected major power with the Southern Neighbourhood, although it remains the most interconnected major power in the case of Israel. In trade, the US is the second most interconnected power with the sub-region, behind the EU, particularly in goods exports to the powers and services trade. However, it lags behind China in the sub-region's goods imports. In terms of financial interconnectedness, the US trails behind the EU, especially regarding greenfield investments. Furthermore, the sub-region exhibits a very low level of interconnectedness with the US in terms of external debt.

Regarding policy interconnectedness, after the EU, the US is the second most active power in establishing FTAs and faces lower levels of trade restrictions compared to the EU. However, its synchronisation with the sub-region's monetary and fiscal policies has been higher than that of the EU. As the primary foreign currency in use, the US dollar makes the region's economies susceptible to US monetary policy. Additionally, some monetary regimes in the Southern Neighbourhood continue to rely on conventional or soft pegs to the US dollar (Jordan and Lebanon) or composite baskets (Morocco), which also makes them susceptible to US monetary policy. Finally, the US ranks second overall in terms of arms transfers to the region, following the EU.

China's geopolitical and geoeconomic interconnectedness with the Southern Neighbourhood has grown in recent years. This growth is evident across most countries in the sub-region, with Algeria experiencing the most significant rise in terms of interconnectedness with China. The primary drivers of the increased interconnectedness are trade and finance. Notably, imports of CRMs and green goods from

China have surged in recent years, while the sub-region's overall goods imports from China have been rising since 2010. In terms of services trade, China remains less involved in the sub-region compared to the EU and the US. China's financial interconnectedness has also been growing, particularly in Morocco and Egypt, due to greenfield FDI projects, especially in infrastructure. However, it has not yet surpassed its peak from 2016, when both countries officially joined the BRI. Key examples of initial BRI megaprojects include Egypt's New Administrative Capital urban development project and Morocco's Tangier Tech smart city. Since then, there have not been any new significant BRI-related investments in the sub-region, which aligns with the broader trend that has seen the initiative lose momentum. Despite the increasing trade, China seems to be focusing more on foreign direct investments in the Southern Neighbourhood rather than on trade integration.

Russia's interconnectedness with the Southern Neighbourhood remains limited, although a slight increase has been observed since the start of the full-scale war in Ukraine, primarily driven by energy exports from Russia to Egypt and Israel. Despite these gains, Russia continues to have the weakest connections with the sub-region among the major powers. In terms of policy, where Russia was once the most interconnected power, its influence has been dwindling.

## 4. Main sub-index findings

### 4.1 Trade

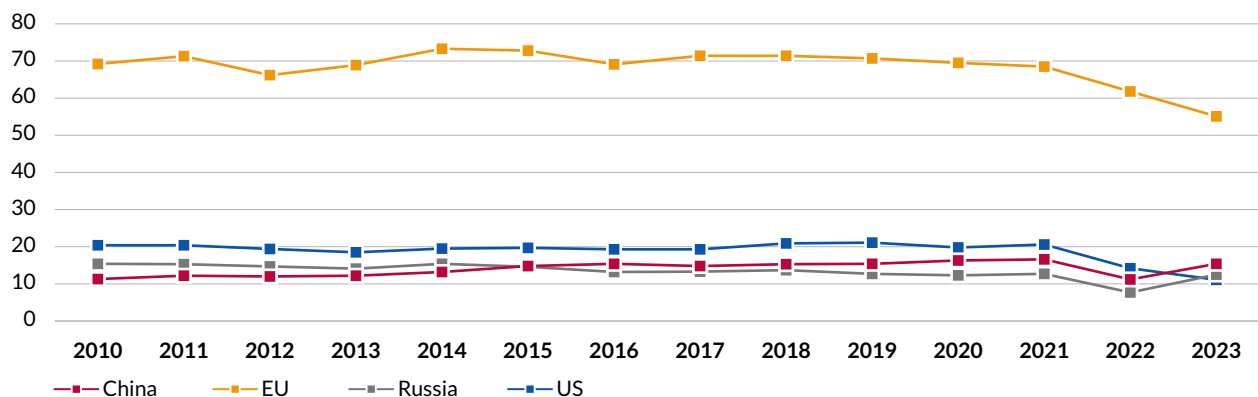
The EU continues to be the most interconnected power with its neighbouring sub-regions in terms of trade (Figure 26). This high level of interconnectivity underscores the EU's significant influence and integration within its immediate geographical vicinity. However, despite maintaining a leading position, the EU recently experienced a slight decline in its trade interconnectivity, and this downward trend appears to have become more pronounced since 2021.<sup>5</sup> Where we do observe a decrease in linkages is in the EU's exports of high-tech goods. At the same time, the EU's total merchandise exports and imports of

goods, exports of intellectual property, and imports of agri-food from its neighbours were trending upwards in recent years.

For many years, the US held the position of the second most interconnected power with the EU's neighbours in terms of trade, although the degree of interconnectiveness has been noticeably lower. Nevertheless, this status was indicative of the strong economic ties and trade relationships that the US maintained with the EU's neighbours. Due to the lack of data for many indicators in 2022 and 2023, we are not able to say whether there was indeed a steep decline in the trade interconnectiveness between the US and the EU's neighbours during those years. What we can say with certainty, however, is that although total goods trade did not decline in 2022 and 2023, there was a contraction in high-tech trade with the

<sup>5</sup> For 2022, we do not have observations for exports and imports complementarity. In addition, for 2023, we also do not have observations for backward and forward integration in global value chains and trade in green goods.

FIGURE 26 Trade interconnectivity scores over time



Source: Bertelsmann Stiftung GEOII

| BertelsmannStiftung

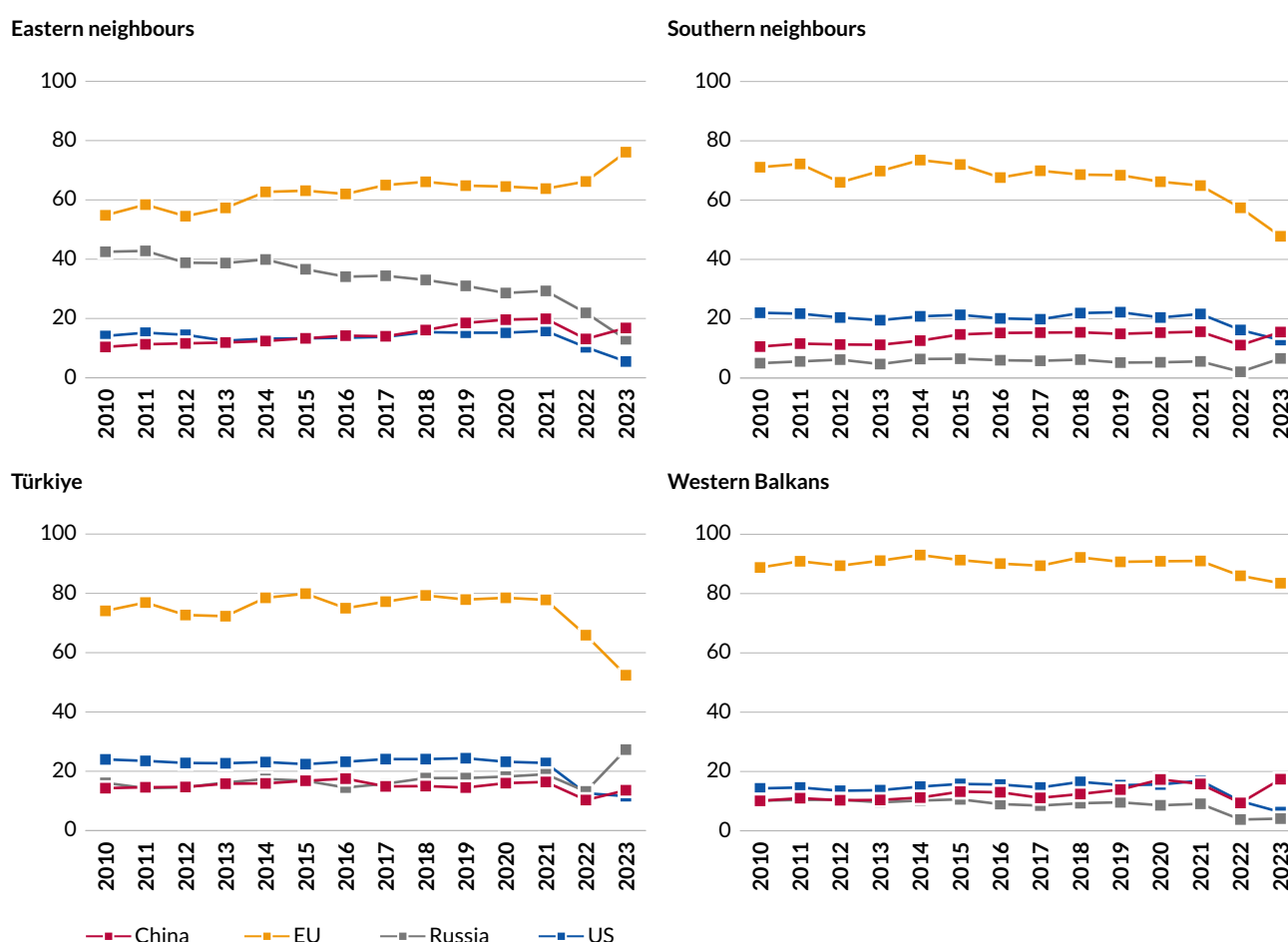
EU's neighbours, exports of energy goods to the US, and agri-food imports from the US.

China was gradually increasing its trade interconnectivity with the EU's neighbours, with the result that it was able to surpass the US and become the second most interconnected power in terms of trade with the EU's neighbours in 2023. The main channels of trade interconnectivity have been through China's exports of goods, especially of high-tech and green goods, as well as its imports of CRMs, agri-food and ICT services. Despite this achievement, it is important to note that China's level of interconnectivity remains significantly lower than that of the EU. China's higher score can be attributed to its strategic in-

vestments, infrastructure projects and trade agreements under various initiatives (e.g. the BRI), which have strengthened its economic presence in the EU's neighbouring countries.

The decline in the EU's interconnectivity with its neighbours in terms of trade is most profound in the Southern Neighbourhood and Türkiye, where the value of the trade interconnectivity sub-index decreased substantially over the 2010–2023 period (Figure 27). Among the sub-regions, the Western Balkans maintain the highest degree of trade interconnectivity with the EU, but the sub-region experienced a relative decline over the last two years of the period under analysis. Compared to the other

FIGURE 27 Trade interconnectivity scores over time, by sub-region



Source: Bertelsmann Stiftung GEOII

sub-regions, only the Eastern neighbours have been strengthening their trade connectivity with the EU recently, primarily due to the fact that Ukraine and Moldova have become more economically integrated with the bloc after the start of their EU accession processes. At the same time, the EU's trade interconnectivity with Armenia, Azerbaijan and Georgia appears to have significantly decreased.

Unlike the EU, the US has had the strongest trade interconnectivity with the Southern neighbours, especially starting in 2018. Israel has the strongest trade interconnectivity with the US in the sub-region, followed by Egypt, Algeria and Jordan. While Türkiye comes in a close second after the Southern

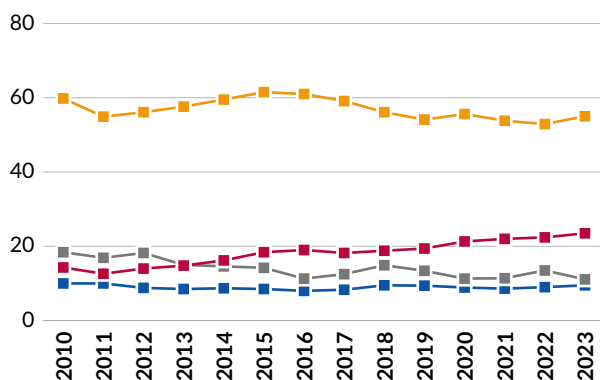
neighbours, judging by their lower trade interconnectivity scores, the Western Balkans and the Eastern neighbours have not been as important.

In contrast to the EU and the US, China consistently increased its trade interconnectivity with all of the EU's neighbouring sub-regions apart from Türkiye during the 2010–2023 period. Among the sub-regions, the Eastern neighbours and Western Balkans have the strongest trade links with China.

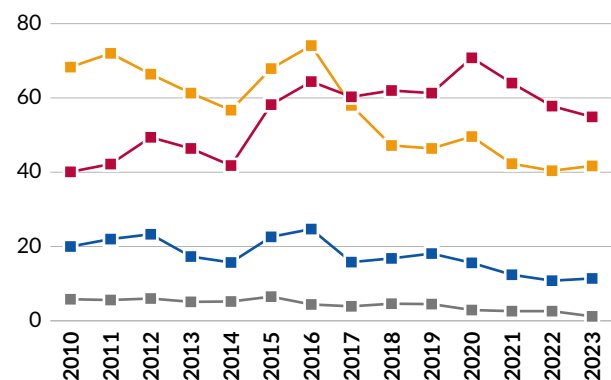
Russia has been steadily becoming less important to the EU's neighbours as a trading partner. This decline is most pronounced among the Eastern neighbours, as Moldova and Ukraine have decoupled themselves

FIGURE 28 Selected instruments of trade interconnectivity over time

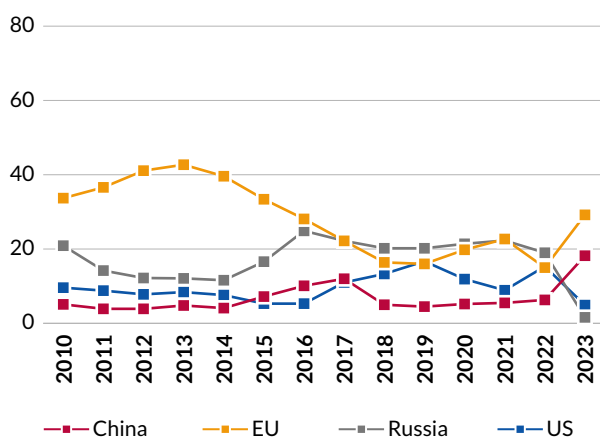
#### Goods imports from powers (TRD\_02)



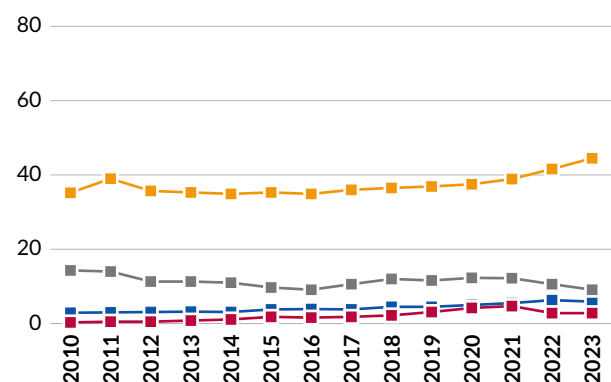
#### High-tech imports from powers (TRD\_14)



#### Critical raw materials imports from powers (TRD\_18)



#### Agri-food exports to powers (TRD\_19)



Source: Bertelsmann Stiftung GEOII

BertelsmannStiftung

from the Russian economy and intensified their integration with the EU. In contrast, Türkiye recently saw its trade interconnectivity with the power increase, largely as a result of Russia's efforts to evade sanctions. The Western Balkans have the weakest trade interconnectivity with Russia, which still maintains relatively high interconnectivity via exports of high-tech and green goods as well as imports of CRMs.

Zooming in on some of the individual indicators (Figure 28) reveals that although the EU remains by far the most interconnected power in terms of total imports of merchandise from its neighbours, China became the biggest source of high-tech goods imported by the EU's neighbours. In addition, China has been strengthening its role as a supplier of CRMs and became the second-biggest exporter of these goods. With steadily increasing trade interconnectivity, the EU occupies a very strong position as a market for the agri-food exports of its neighbours.

## 4.2 Finance

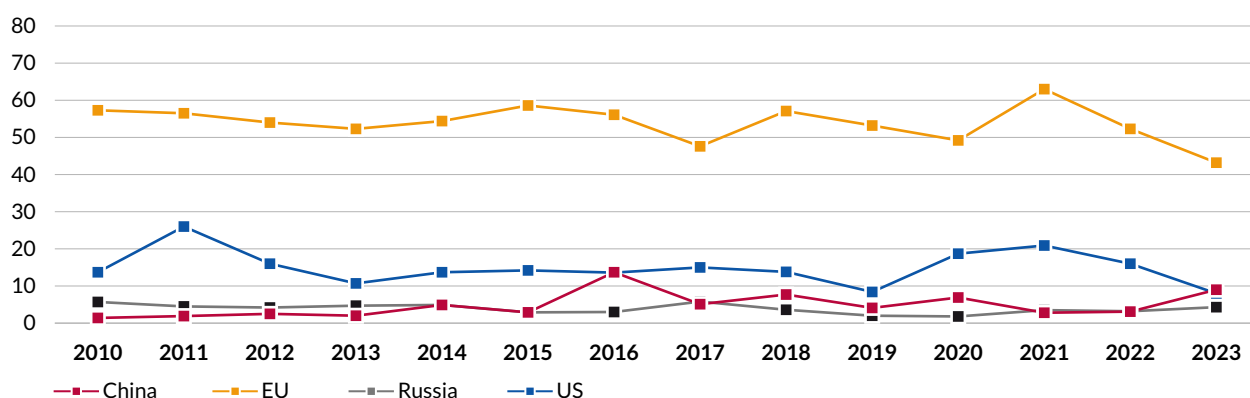
Although the EU has been the leading power in terms of financial interconnectivity with its neighbours (Figure 29), its interconnectivity in this area was recently on a downward trajectory. Among the four powers, the EU remains the main source of FDI in its

neighbours, but its share in the inward FDI stock of its neighbours has been declining. The EU's score for external debt also declined sharply in the 2010–2023 period. In contrast, China has been gaining ground in terms of its financial interconnectivity with the EU's neighbours, having overtaken the US in 2023 to become the second-biggest provider of external financing to the EU's neighbours.

Historically, the Western Balkans have been the sub-region most interconnected with the EU in terms of financial linkages. However, in 2023, the Eastern neighbours had a higher score for financial interconnectivity with the EU (Figure 30). This result was mostly driven by an increase in the EU's investment in and lending to Ukraine and Moldova. Since Russia's full-scale invasion of Ukraine in 2022, the EU has provided about €40 billion in financial support to the Ukrainian government, making it the largest donor to date (Spielberger 2024). At the same time, the EU's financial interconnectivity with Armenia, Belarus and Georgia has been decreasing, as the countries have instead been strengthening their financial ties with Russia (and, in the case of Georgia, with China).

Furthermore, despite all the uniqueness of Ukraine's situation and the overwhelming political and moral imperative to make loan assistance as unburdensome

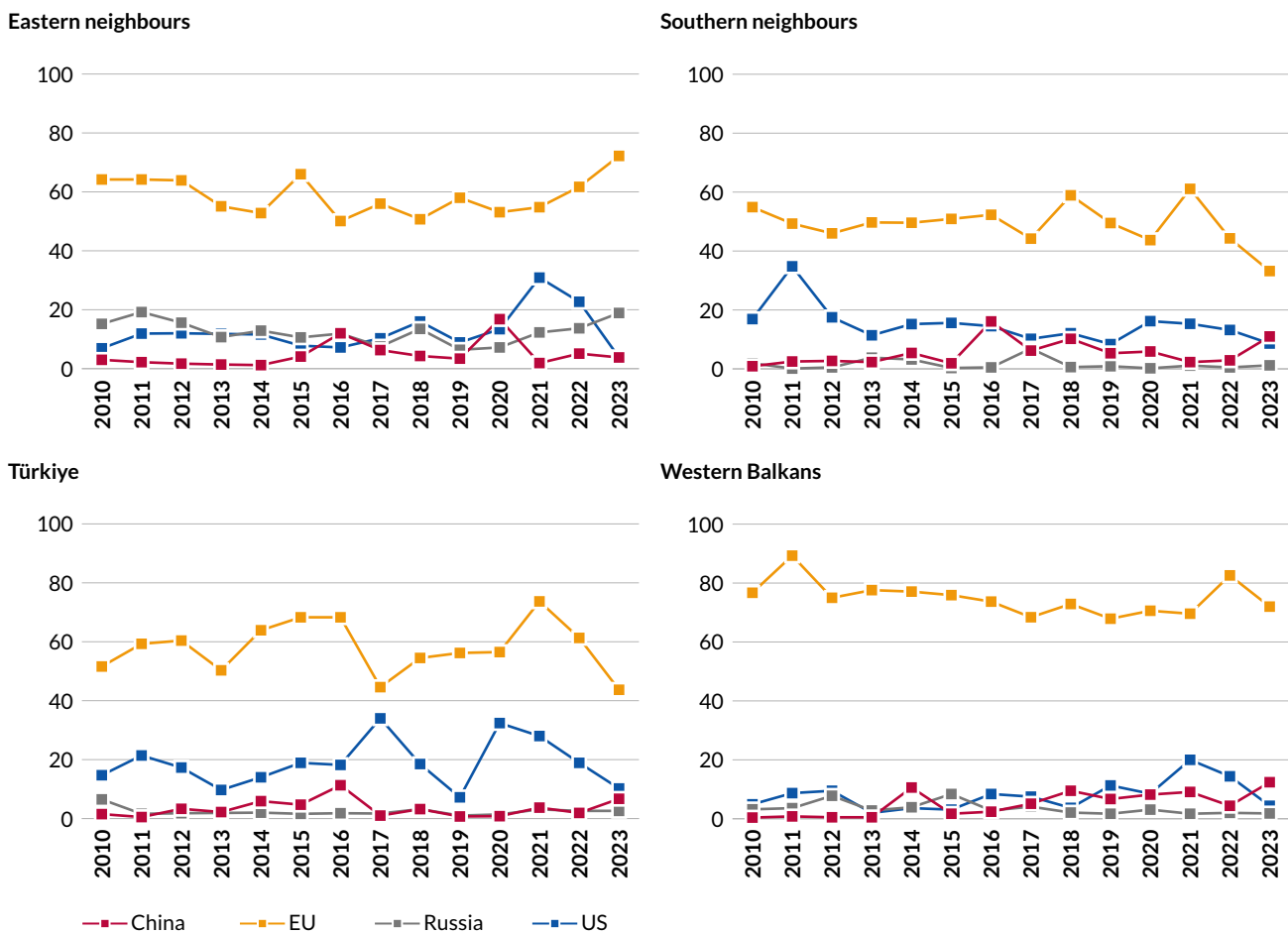
FIGURE 29 Financial interconnectivity scores over time



Source: Bertelsmann Stiftung GEOII

| BertelsmannStiftung

FIGURE 30 Financial interconnectivity scores over time, by sub-region



Source: Bertelsmann Stiftung GEOII

| BertelsmannStiftung

to its government as possible, there are some initial indications that the EU's assistance to Ukraine has transformed its ability to assist third countries financially more generally. The EU has recently shown a greater willingness to use macro-financial assistance for more political ends, as reflected in its mooted loan to Tunisia (DG NEAR 2023) and a recent loan to Egypt (European Council 2024). Some characteristics of the loans to Ukraine (not least ultra-long maturities) have been replicated in other loans, such as the Western Balkans Facility (EUR-Lex 2024). Although the EU's financial capabilities were specifically ramped up to support Ukraine at scale, by now they are being used for other purposes, too. Nevertheless, the EU's overall financial interconnectivity

with the Southern neighbours and Türkiye has been weakening due to the sluggish investment dynamics.

Historically, the US was the second most interconnected power in terms of financial ties with the EU's neighbouring regions. Despite being at much lower levels compared to the EU, the US maintained a significant presence. However, in recent years, the US has experienced a sharp decline in its financial interconnectivity with all the sub-regions. This drop can be attributed to shifting economic priorities and the impact of global events that have disrupted financial markets and investment flows. In 2023, China surpassed the US to become the second most interconnected power in terms of financial ties with

the EU's neighbouring sub-regions. This shift highlights China's growing influence and strategic investments in these areas.

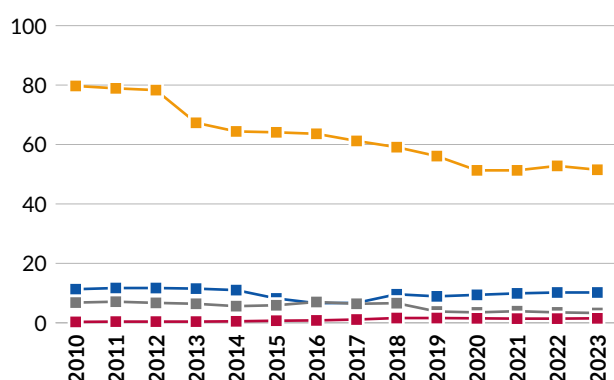
China was able to increase its financial interconnectivity with the EU's neighbours across all indicators and, as a result, narrowed the gap with the EU for this area of interconnectivity. Although China still lags far behind the EU as an investor and creditor, there was a marked decrease in the gaps between the scores for capital pledged to greenfield investment projects in general, greenfield infrastructure projects and external debt. The power has already become the biggest investor in many Eastern European and

Western Balkan countries in terms of capital pledged to greenfield investment projects (Pindyuk 2024).

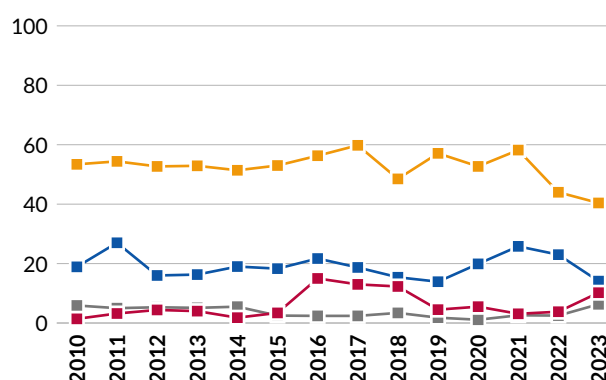
The Western Balkans and the Southern neighbours, which have played an important role in China's geo-economic strategy (Stanicek and Tarpova 2022; Gha-far and Jacobs 2019), have become the main sub-regions in terms of financial linkages with the power. Türkiye and the Eastern neighbours lag far behind in terms of their financial interconnectivity with China. This trend likely reflects the lacklustre performance of the BRI projects in Türkiye (Banach and Gunter 2023) as well as the effects of Russia's war in Ukraine on the Eastern neighbours' investment attractiveness.

FIGURE 31 Selected instruments of financial interconnectivity over time

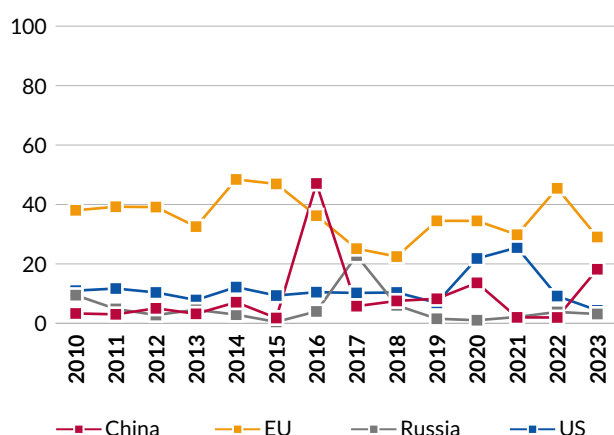
FDI inward stock from powers (FIN\_01)



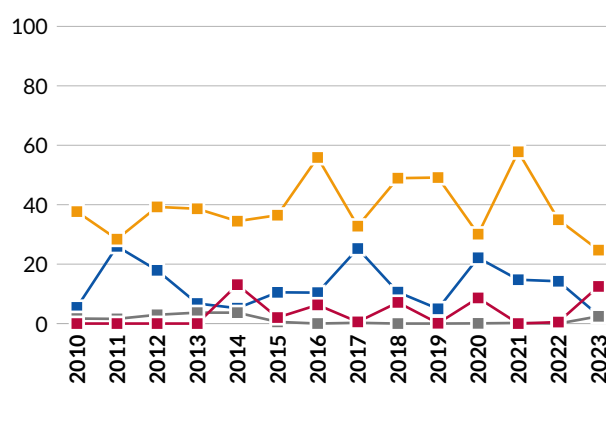
Greenfield investment projects from powers (FIN\_03)



Greenfield investment capital from powers (FIN\_04)



Greenfield investment in infrastructure from powers: total capital pledged (FIN\_06)



In the Western Balkans, China has mainly been expanding its financial linkages with Serbia and North Macedonia, while Egypt and Morocco have the highest financial interconnectivity scores among the Southern neighbours. In both sub-regions, greenfield investment projects appear to be the main channel of financial linkages.

Russia's financial interconnectedness with the EU's neighbouring sub-regions has remained relatively low, especially with the Southern neighbours. Russia has not achieved the same level of financial integration as the EU, the US or China, indicating both fewer means in this regard but also that it is less of a priority for Russia than other elements of interconnectivity (e.g. energy and more purely political means of exerting influence). Only the Eastern neighbours (primarily Belarus) experienced an increase in their financial interconnectivity with Russia, which started in 2019. Belarus relies heavily on financial support from Moscow, which is provided in exchange for a commitment to pursue further economic integration with Russia (Alachnovič et al. 2024).

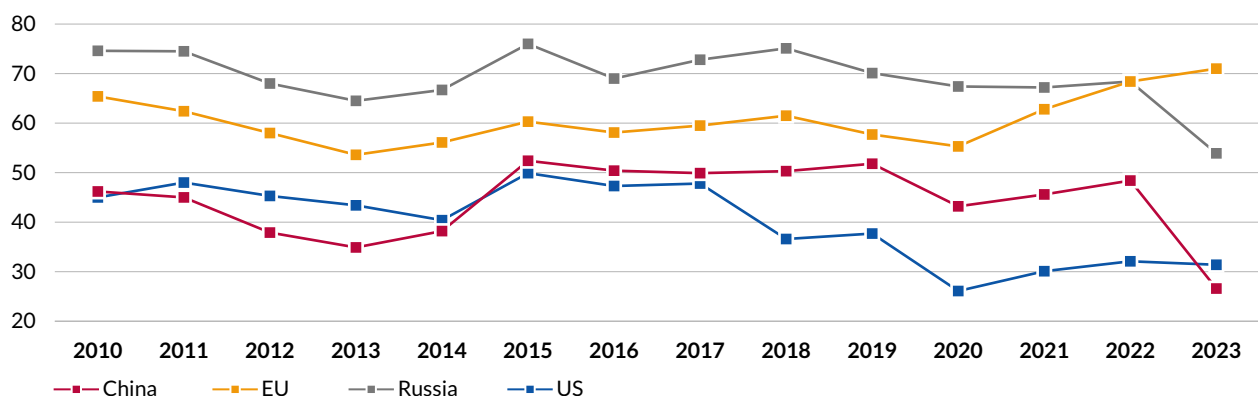
Zooming in on some of the individual indicators (Figure 31) reveals that although the EU remains by far the most interconnected power in terms of total inward FDI stock, it has been gradually losing its position as the main source of external financing to

its neighbours. As indicators for greenfield investments show, China has been increasing its presence in the EU's neighbours as a part of the BRI, which is most noticeable in the dynamics of capital pledged to greenfield investment projects, where it overtook the US to become the second-biggest player among the four powers. The same trend can be observed when one looks at greenfield investment projects in infrastructure, where China is also the second-biggest source of capital among the four powers.

### 4.3 Policy

The EU's interconnectivity with its neighbours appears to be weakest for the policy sub-index. The bloc lagged behind Russia in this respect for most of the covered period, only surpassing it in 2023 to become the most interconnected among the four powers (Figure 32). This became possible owing to two things: a noticeable increase in the EU's policy interconnectivity with its neighbourhood starting in 2020 and a continuous decline in Russia's policy interconnectivity since 2018. The EU has been strengthening its interconnectivity most notably with the Eastern neighbours, as Georgia, Moldova and Ukraine have been intensifying their efforts to become closer to the EU, notably through AAs in the wake of Russia's annexation of Crimea in 2014 and the onset of the full-

FIGURE 32 Policy interconnectivity scores over time



Source: Bertelsmann Stiftung GEOII

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scale invasion of Ukraine in 2022, which has galvanised their respective accession processes.

After a long period of leading in terms of policy interconnectivity, Russia has seen a continuous decline since 2018. While it remains the dominant power in the Eastern neighbourhood – particularly in Armenia, Azerbaijan and Belarus – its influence elsewhere is weakening. Russia remains the second most interconnected power with the Southern neighbourhood, although its position there has eroded in recent years.

The US and China do not have strong policy connectivity with the EU's neighbouring countries and, for both, it has mostly been on a downward trajectory since 2015. In the case of the US, the reasons for the weakening of policy interconnectivity with the EU's neighbours has been an increasing use of trade and financial sanctions as well as trade restrictions against some of the EU's neighbours in addition to a growing divergence of data regulating frameworks (Ferracane and van der Marel 2025). In the case of China, it has mainly been a decline in the synchronicity of monetary policies as well as a divergence of the data regulation frameworks and a slight uptick in the number of trade restrictions imposed.

The reason why the EU is not as dominant in terms of policy interconnectivity as it is in trade and finance can mainly be attributed to the NTMs it imposes on its neighbouring countries as well as to its use of trade and financial sanctions and barriers. In terms of NTMs, the EU imposes complex product standards and certification requirements and allows only limited recognition of third-country regulatory regimes. For this reason, it performs only slightly better than the US but fares worse than China and significantly worse than Russia, which imposes very few NTMs. While many of these measures stem from legitimate concerns (e.g. consumer protection and phytosanitary standards), they can also be seen as indicative of the EU's comprehensive regulatory approach.

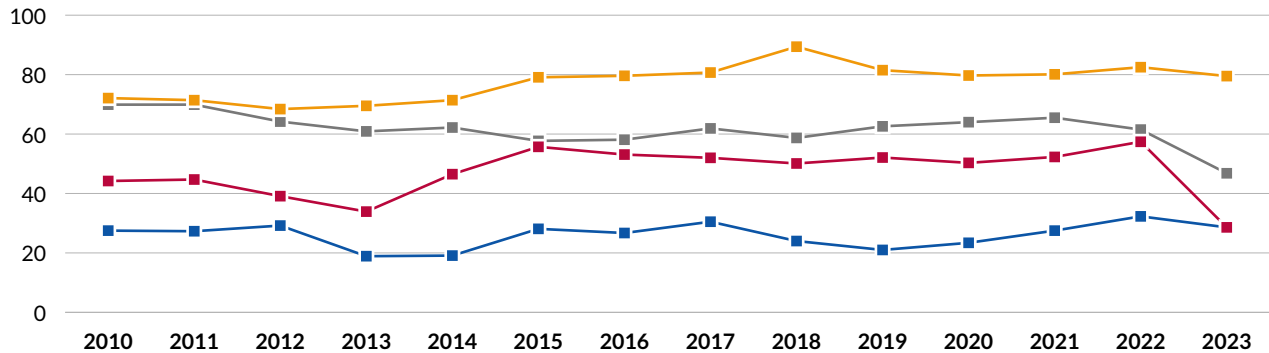
In terms of trade and financial sanctions, the EU has adopted a relatively assertive stance – more so than countries like Russia and China, which rarely use such instruments, though still less frequently than the US. These measures often reflect the EU's efforts to project normative power and uphold international standards rather than a general tendency towards restrictiveness.

On the other hand, the EU is much more interconnected with its neighbours in terms of bilateral trade agreements and import tariffs. It has concluded much deeper trade agreements and maintains much lower import tariffs than the other powers, including China and Russia, both of which impose significantly higher tariffs than the EU. This reflects a different approach to trade policy and protectionism: while China and Russia rely more on traditional instruments (e.g. tariffs), the EU tends to resort to administrative barriers, especially standards and NTMs. In recent years, and particularly following Russia's full-scale invasion of Ukraine, the EU has also become the leading power in terms of arms transfers to its neighbourhood, surpassing even the US, in a shift that underlines its growing geopolitical assertiveness.

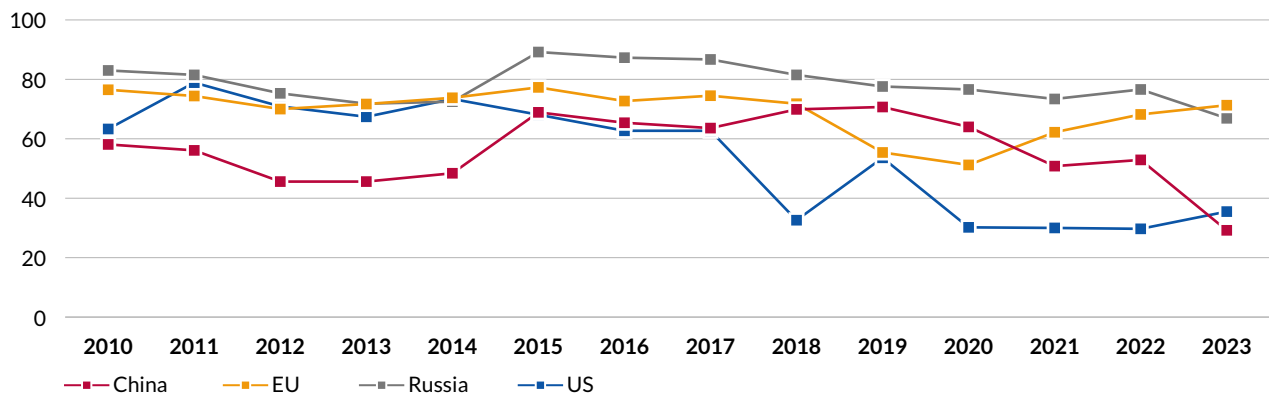
Looking at the EU's interconnectedness with the individual sub-regions, the Western Balkans stand out as the most interconnected owing to the high degree of similarity in data and NTM regulatory frameworks, low mutual import tariffs, the absence of wide-ranging trade and financial sanctions, and a notable synchronicity of fiscal and monetary policies (Figure 33). The policy linkages are strong with almost all countries in the sub-region, with Kosovo being a relative exception. Over the past decade, the Eastern neighbours significantly improved their interconnectedness with the EU, recently emerging as the second most connected sub-region owing to the increased efforts of Georgia, Moldova and Ukraine. This general upward trend was primarily driven by the conclusion of DCFTAs around a decade ago, the lowering of mutual import tariffs, the harmonisation of data regulatory frameworks, and arms trans-

FIGURE 33 Policy interconnectivity scores over time, by sub-region

## Western Balkans



## Türkiye



Source: Bertelsmann Stiftung GEOII

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fers. The EU also made progress in reducing non-tariff barriers and other trade restrictions.

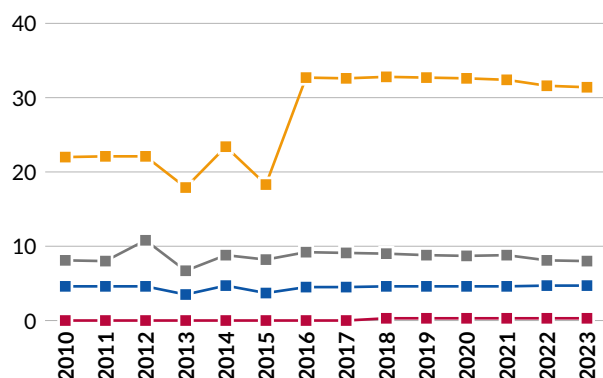
Since 2021, the EU has also emerged as the power most interconnected with the Southern neighbours in terms of policy, especially in Egypt, Israel, Jordan and Morocco. In these countries, the EU's connectivity has been underpinned by low import tariffs, regulatory approximation in data and NTM regulatory frameworks, and a reduction of financial sanctions. In Türkiye, the EU surpassed Russia in 2023 in terms of policy interconnectivity, building on a trend that began in 2021. In this case, the key driver was increased arms transfers in addition to a decline in NTMs and trade restrictions as well as improved synchronicity in fiscal policy.

Looking at the individual indicators, one can observe rather heterogeneous performances (Figure 34). Among the powers, the EU has been the most successful at using the instrument of DCFTAs, which reflects the extent of trade policy coordination and captures the reduction of trade restrictions and policy harmonisation. Looking at the dynamics of this indicator over time, one can see that the EU remains by far the most interconnected power, with a major improvement in 2016.

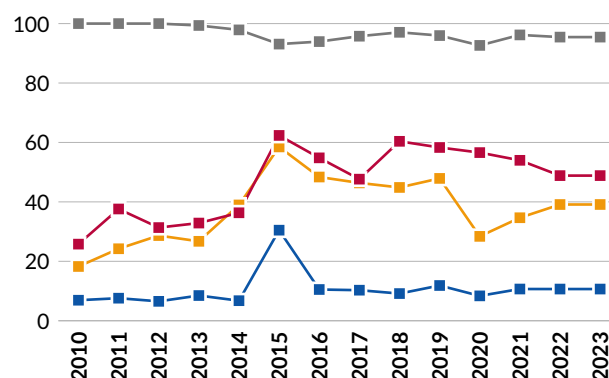
As its member states have had to step up in their role as suppliers of arms to Ukraine since Russia's full-scale invasion in 2022, the EU has become a definite leader among the four powers, leaving the US far behind. Russia, which was the leading supplier of arms

FIGURE 34 Selected instruments of policy interconnectivity over time

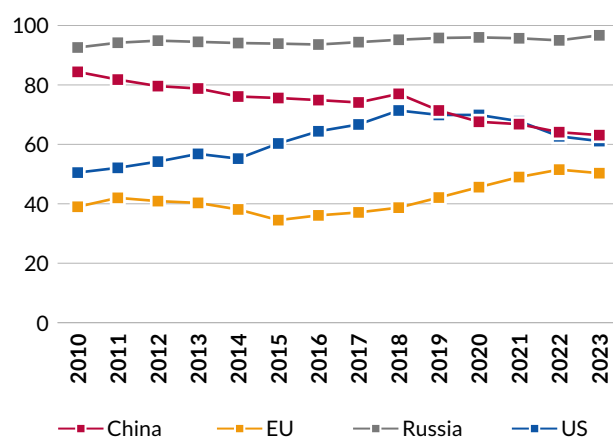
Trade Agreements Depth Index (POL\_01)



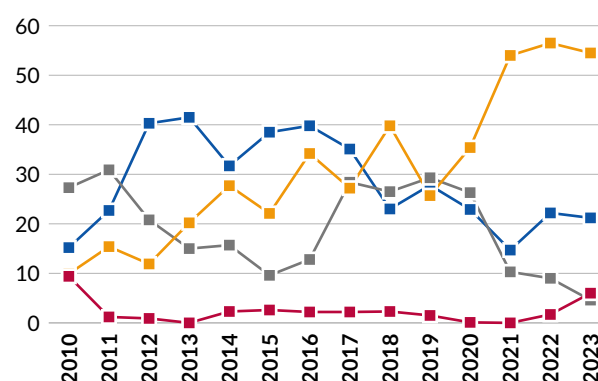
NTM tariff equivalents of the powers (POL\_06)



Trade restrictions by the powers (POL\_09)



Arms transfers by the powers (POL\_14)



Source: Bertelsmann Stiftung GEOII

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to the EU's neighbours in 2010 and 2011, has lost its importance and now occupies last place.

However, the EU appears to have stricter NTMs and trade restrictions than all three other powers, most markedly Russia. Of course, the use of trade restrictions has been linked to political objectives, similarly to the trade and financial sanctions that are used much more intensively by the EU and the US. Nevertheless, the relative dynamics likely point to a possibility to improve the EU's interconnectivity with its neighbours by gradually reducing trade barriers.

## 5. Conclusions

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This report shows that the EU remains the power most interconnected with its neighbouring regions overall. However, it is generally not as dominant as it was a decade ago, as the interconnectedness of the other three major powers (i.e. China, Russia and the US) with particular countries or in particular areas of interconnectivity has grown.

The EU's **trade interconnectivity** with its neighbours has declined in the post-2021 period, especially with the Southern Neighbourhood and Türkiye, as China expands its presence. The EU's diminishing importance as a supplier – particularly of high-tech goods – has enabled China to emerge as an alternative trading partner. However, the EU still maintains a strong lead in digital services trade and remains the top export destination for agri-food products from its neighbours.

In terms of **financial interconnectivity**, the EU continues to dominate in FDI and development aid, but its share of investment and external debt exposure is shrinking. At the same time, the euro's declining role in the EU's neighbouring countries (e.g. those in North Africa) has partly reduced the EU's financial leverage.

When it comes to **policy interconnectivity**, the EU has recently surpassed Russia as the most interconnected power, largely due to deeper trade agreements, greater regulatory alignment and, in no small part, increased arms transfers, particularly to Ukraine. Russia's previously high scores in this area reflected lower non-tariff barriers and a limited use of formal trade restrictions as well as financial and trade sanctions despite its repeated weaponisation

of trade, investment and migration flows. However, the EU's use of NTMs and sanctions may continue to weaken its policy connectivity, especially in contrast to the less restrictive stances of China and Russia.

In terms of sub-regions, the EU retains its strongest influence in the Western Balkans and among its Eastern neighbours, particularly Ukraine and Moldova, which have drawn closer to the EU in response to Russian aggression and hybrid warfare. China is gaining ground in both the Western Balkans and the Southern Neighbourhood, primarily through infrastructure projects and expanding trade relations. Türkiye remains tied to the EU, although both China and Russia have increased their presence here through strategic investments and energy partnerships. In the Southern Neighbourhood, the EU continues to play a leading role, but its dominance is increasingly challenged by China's growing trade and financial footprint.

These conclusions underline the strong and urgent need for the EU to fundamentally reassess its role, assumptions and capabilities in an increasingly contested and dynamic neighbourhood. Past strategies have often leaned on the EU's perceived normative appeal and regulatory power in what has been called the "Brussels effect". However, while influential in setting global standards, this model has proved insufficient when it comes to shaping the political and strategic realities of the countries surrounding the EU. This is strongly underlined by our results, which show a general decline in the EU's trade and financial interconnectivity despite an increase in policy interconnectivity.

The GEOII developed in this report shows that although the EU remains the power most interconnected with its neighbourhood in economic terms, this advantage has not translated into lasting political influence or strategic stability. Indeed, economic ties have too often been treated as ends in themselves rather than as instruments of purposeful engagement. There are also countries included in the GEOII – with Serbia perhaps being the most obvious example – with which the EU has an extremely high degree of economic, financial and policy interconnectivity but still faces serious competition for geopolitical influence from Russia and China. Many of the EU's neighbours have a menu of geopolitical and geoeconomic options to choose from, and many are adept at maintaining ties with several powers at once and can leverage “sitting on the fence” to their own advantage. As strong as it still is with many countries, the EU's interconnectivity with its neighbours has not been enough to tempt them down off the fence.

The EU can therefore no longer rely on the pull of its single market, past institutional achievements or pure economic interconnectivity to shape outcomes. Geopolitical rivalry – particularly from China and the China-Russia axis – combined with global disruptions and democratic backsliding, demand a more strategic and coherent use of the EU's existing levers. Meanwhile, the gradual retreat of the US from its traditional role in the region has left a vacuum that the EU is ill prepared to fill, particularly given its limited military capacities. This places even greater responsibility on the bloc to effectively exploit its economic and institutional power.

The EU's neighbourhood is no longer a passive sphere of influence but a contested space in which other powers deploy assertive tools – including infrastructure, finance, energy and coercive diplomacy – to reshape the regional order. Although the EU's economic presence remains significant, it runs the risk of strategic decline if it fails to convert interconnectivity into geopolitical relevance.

The assumption that economic interdependence would naturally drive convergence towards EU norms must now be re-evaluated. Economic integration has not prevented democratic erosion, nor has it shielded the region from destabilising authoritarian influence. The EU's technocratic tools (i.e. conditionality, technical assistance and market access) have lacked the strategic intent and political resolve needed to deliver meaningful outcomes in this more competitive environment.

To remain a shaping power, the EU must become more deliberate in how it uses its interconnectivity – its trade, financial, regulatory and institutional ties – as levers of strategic influence. This will require aligning the bloc's values with tangible instruments, designing differentiated approaches for a diverse region, and embedding responsiveness and coherence into its external engagement. This shift must take place using the EU's current capabilities – but with far greater political resolve and strategic purpose.

The following recommendations outline how the EU can better operationalise its economic and institutional relationships to bolster its position in its neighbourhood. They aim to turn the EU's economic presence into a more effective and resilient form of strategic engagement.

## 6. Policy Recommendations

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### 6.1 Strategic neighbourhood engagement

The EU's neighbourhood is increasingly contested – economically, politically and institutionally. While the following sections address specific geopolitical competitors, sectoral vulnerabilities and regional dynamics, this section outlines the strategic measures the EU must take to sustain long-term engagement, strengthen resilience and reinforce its role as a shaping power across its neighbourhood.

- **Strategic Infrastructure Investment Pipeline:** Substantially increase EU investment in neighbourhood infrastructure – particularly in energy, transport and digital connectivity – by consolidating existing tools into a streamlined Neighbourhood Infrastructure Pipeline aligned with the Global Gateway. Build on mechanisms (e.g. the Neighbourhood Investment Platform) and accelerate disbursement through regional development banks to offer a credible alternative to external competitors.
- **EU-Neighbourhood Trade Finance Facility:** Establish a dedicated facility, implemented jointly by the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD), to provide subsidised trade credits and guarantees, particularly for small and medium-sized enterprises (SMEs). Focus on sectors with high growth potential and strategic value (e.g. agri-food, clean tech and textiles) to strengthen export capacity and reduce financing barriers for regional producers.
- **Regulatory Docking Platform:** Create a simplified mechanism for neighbourhood countries to align with complex EU regulations (e.g. CBAM and digital standards) through transitional procedures, technical assistance and predictable timelines. Coordinate these efforts through European Commission services and EU delegations.
- **Supply Chain Integration Tools:** Expand the cumulation of origin rules and map strategic sectors (e.g. automotive, agri-food and textiles) for supply-chain localisation within the neighbourhood. Deploy support teams in EU delegations to identify and resolve bottlenecks.
- **Green and Digital Standards Coalition:** Convene a coalition with neighbourhood countries to jointly develop climate and digital-trade clauses for future FTAs. Use this as a platform for standard-setting diplomacy that reinforces the EU's regulatory leadership.
- **Reform the CAP for External Compatibility:** Review the Common Agricultural Policy (CAP) to increase space for agricultural export diversification from the EU's neighbourhood, especially where preferential access is constrained by the CAP's current design.
- **Administrative Simplification and Fund Absorption:** Reduce fragmentation across EU funding instruments (e.g. NDICI-Global Europe and IPA III), and improve technical support for neighbourhood governments to absorb and implement EU funding effectively.

## 6.2 Strategic rivalry: responding to Russia, China and the United States

The EU faces increasing strategic competition in its neighbourhood from Russia, China and the US, each of which is advancing its own interests with distinct geoeconomic instruments. While Russia relies on coercion and disruption, China deploys infrastructure and trade diplomacy, and the US is partially retreating from its traditional roles in the region. The following recommendations identify how the EU can respond to these challenges using its own tools and institutional strengths.

### 6.2.1 Defending against Russian aggression and interference

- **Staged Accession Pathway:** While initiatives (e.g. the new Growth Plan for the Western Balkans) are welcome, more can be done to develop a phased enlargement model for the Western Balkans, Ukraine and Moldova, enabling partial integration into EU policy domains (e.g. energy, digital and transport) before full membership. Link funding to modular *acquis* chapters and rule-of-law benchmarks while including reversible benefits to safeguard democratic values.
- **Support Ukraine:** Deepen Ukraine's involvement in EU defence initiatives via participation in the European Defence Fund (EDF), selected Permanent Structured Cooperation (PESCO) projects, and European Defence Agency programmes under the existing arrangement. Launch an EU-led Ukraine Reconstruction Fund jointly managed with international financial institutions to support infrastructure recovery, energy resilience and public-sector reform.
- **Hybrid Shielding Mechanisms:** Establish a co-ordinated EU framework to counter Russian economic coercion and hybrid pressure in the neighbourhood. This should include cyber-defence teams, counter-disinformation hubs and targeted

economic resilience support. The EU should develop early-warning systems for disruptions to trade, energy and digital infrastructure, including threats to undersea data cables and other critical connectivity assets.

- **Black Sea Energy Corridor:** Develop an EU-Black Sea Renewable Energy Corridor with investment guarantees for wind, solar and interconnector infrastructure. Prioritise Moldova and the Western Balkans in scaling up clean-energy financing and resilience.
- **EU Budget Pre-Integration:** Beginning in 2027, extend partial access to cohesion and rural development funding for the Western Balkan countries, treating them as quasi-member states in select EU budget lines under the next Multiannual Financial Framework.
- **Trade Integration Track:** Build on the "Single Market Acceleration Track" already initiated with the Western Balkans and Moldova to reduce non-tariff barriers and streamline customs procedures for pre-accession countries. Coordinate implementation through DG TRADE, and embed it more systematically within enlargement and association frameworks. While this model can be extended to other neighbourhood countries aligning with EU rules, only European states are eligible for membership; for others, deeper economic integration remains the appropriate goal.

### 6.2.2 Responding to China's strategic challenge

- **Geoeconomic Infrastructure Positioning:** Leverage the Neighbourhood Infrastructure Pipeline and Global Gateway Neighbourhood Fund (see 6.1) to offer credible alternatives to Chinese infrastructure loans. Prioritise strategic sectors, ensure transparency and sustainability, and coordinate investment packages that anchor partner countries more firmly within EU frameworks.



- **Tech Sovereignty Partnerships:** Establish joint EU-neighbourhood research hubs under Horizon Europe targeting AI, biotechnology and renewable energy. Guarantee the sharing of intellectual property (IP) rights and open-access frameworks to foster long-term innovation partnerships.
- **Raw Materials Resilience:** Sign strategic agreements with key neighbours (e.g. Albania, Morocco and Serbia) for CRMs. Provide EU-funded technical assistance to support compliance with environmental, social and governance standards under the Critical Raw Materials Act.
- **Trade Agreement Overhaul:** Modernise outdated trade agreements in the Southern Neighbourhood, adding provisions that promote supply chain diversification, fair competition and a level playing field, particularly in agriculture and services for which Chinese practices challenge EU norms.
- **Goeconomic Monitoring and Early Action:** Strengthen the EU's capacity to track Chinese infrastructure and financial initiatives in its neighbourhood. Coordinate with EU delegations to pre-empt dependencies by offering tailored investment, trade and regulatory packages aligned with EU interests.
- **Targeted Aid Substitution:** Deploy micro-grants via NDICI-Global Europe to fill soft-power gaps left by US aid withdrawals. Focus on media pluralism, civil society, education and democratic governance, particularly in regions where influence is contested.
- **Transatlantic Sanctions Coordination:** Maintain EU-US coordination on financial sanctions and regulatory alignment in the neighbourhood where strategic interests overlap despite broader divergences in global policy.
- **De-risking Anticipation:** Monitor US-China decoupling and prepare for its spillover effects in the EU's neighbourhood, particularly in trade and investment. Strengthen early engagement with partners that may be targeted by Chinese diversification strategies.

### 6.2.3 Adapting to the strategic retreat of the US

- **Neighbourhood Responsibility Shift:** Respond to US calls for greater EU burden-sharing by asserting more leadership in the neighbourhood – economically and politically – through strengthened enlargement incentives, infrastructure funding and strategic communication.
- **Conditional Engagement Tools:** Use the EU's economic and policy interconnectivity as leverage by applying a mix of incentives vis-à-vis the EU's neighbours (e.g. phased accession, infrastructure investment and market access) and conditionalities (e.g. sanctions reversibility and rule-of-law triggers) to reinforce alignment with EU interests.

## 6.3 Sectoral strategies: EU performance by sub-index

The GEOII reveals that the EU maintains a strong trade, financial and policy presence in its neighbourhood – but with growing vulnerabilities. The following recommendations identify how the EU can reinforce its sectoral position, strengthen interconnectivity and respond to strategic competition more effectively.

### 6.3.1 Trade: enhancing resilience and strategic integration

- **Permanent Market Access Arrangements:** Convert temporary trade measures (e.g. tariff rate quotas and cargo permits) into permanent arrangements via binding bilateral protocols. Link permanence to regulatory convergence and mutual recognition while protecting sensitive sectors via safeguard mechanisms.
- **Resilience-Linked Trade Access:** Tie deeper market access to partner commitments to efforts to



reduce exposure to Chinese and Russian investment in strategic sectors, improve supply-chain transparency, and align with EU foreign and trade policy objectives.

- **Strategic Trade Corridors:** Develop EU-neighbourhood trade corridors supported by investment in rail, port and digital infrastructure to physically anchor partner economies to the EU market and reduce reliance on alternative external offerings.
- **Flexible Trade Cooperation Frameworks:** For countries unable or unwilling to commit to full DCFTAs, offer modular trading partnerships focused on customs facilitation, digital trade, standards recognition and support for SMEs.
- **Trade-for-Security Provisions:** Include provisions in trade deals that enable the strategic stockpiling of critical goods (e.g. fertilisers and raw materials) in partner countries, thereby giving them a material stake in EU supply-chain resilience.
- **Strategic Trade Conditionality:** Use trade incentives more assertively. Offer accelerated access to countries that align with EU values and interests, and prepare mechanisms to suspend preferential terms should partners materially undermine the EU's strategic goals.

### 6.3.2 Finance: strengthening investment alignment and financial resilience

- **Neighbourhood Investment Guarantee Facility:** Establish a dedicated guarantee scheme under the EIB to de-risk public-private partnerships in the neighbourhood countries. Link eligibility to enlargement scorecard benchmarks and independent governance assessments. Prioritise investments in connectivity, energy diversification and industrial modernisation that are aligned with the EU's strategic objectives.

- **Financial Conditionality for Strategic Alignment:** Apply conditionality to EU and EIB disbursements to reward reforms and discourage economic dependence on the EU's geopolitical adversaries. Incentivise alignment with EU standards in areas such as governance, transparency and competition policy. Where conditionality is applied, it must be backed by meaningful financial incentives, as the scale and predictability of funding are essential for both credibility and impact.
- **Streamlined Access to EU Funding:** Consolidate and simplify funding instruments (e.g. NDICI-Global Europe and IPA III) to reduce administrative burdens and accelerate disbursement. Strengthen technical assistance to improve fund absorption and oversight.
- **Capital Market Integration:** Support neighbourhood countries in their efforts to issue green and social bonds aligned with the EU taxonomy. Facilitate access to EU capital markets to encourage reforms related to public finance, climate alignment and the digital transition.
- **Enhance Financial Integration:** Neighbourhood countries face shrinking access to EU correspondent banking and trade finance, which is particularly burdensome for less developed economies due to higher costs and limited credit. The EU should strengthen regulatory cooperation and information-sharing, support local capacity-building, expand regulatory alignment and modernise trade agreements to better facilitate investment flows.

### 6.3.3 Policy: inclusive rule-making and strategic conditionality

- **Neighbourhood-Sensitive Rule-Making:** Increase the inclusiveness of EU regulatory processes by formalising structured consultations with neighbouring governments on major legislative packages. Expand joint regulatory dialogues and advisory roles, and include neighbourhood

impact assessments in relevant EU regulatory proposals.

- **Support for Regulatory Convergence:** Establish EU-funded compliance units in neighbourhood countries to help local firms align with EU standards and reduce adaptation costs. Offer flexible timelines and transitional mechanisms to countries demonstrating sustained convergence efforts.
- **Smart Design of Non-Tariff Measures (NTMs):** Adjust NTMs where possible to avoid disproportionate impacts on economically and institutionally less developed partners. Develop internal EU capacity to assess spillovers, and tailor rules to support gradual integration.
- **Strategic Enforcement and Conditionality:** Create a “sanctions impact review mechanism” with clear criteria for reversibility and renewal to assess the proportionality and effectiveness of EU sanctions. Link access to EU markets, funding and regulatory benefits to demonstrable reforms in governance, competition policy and the rule of law. However, for conditionality to work, the incentives offered must be substantial, credible and aligned with the priorities of partner countries.
- **Visibility of and Engagement with EU Support Instruments:** Improve communication and visibility around EU programmes, funding and technical assistance in the neighbourhood. Ensure that governments, stakeholders and citizens are better informed about the available opportunities so as to enable more effective uptake and to foster greater trust in the EU’s level of commitment.

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