**Panoply Journal** ISSN: 2766-2594
Volume 7, 2026 DOI: https://doi.org/10.71166/esezsn84

# USA, China, and the EU: Code of Compliance and Policy Conditionalities in Financial Soft Power and Their Human Rights Implications

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## Abstract

Global power relations are increasingly shaped by financial soft power—the capacity of states and regional blocs to influence political and economic behavior through investment, aid, trade regimes, and regulatory standards. This paper presents a comparative analysis of how the United States (USA), the People's Republic of China (PRC), and the European Union (EU) embed codes of compliance and policy conditionalities within their financial instruments and examines the resulting human rights implications.

Using a qualitative comparative approach grounded in institutional analysis, critical political economy, international relations, and human rights scholarship, the study examines how conditionality is operationalized by each actor and how it shapes outcomes across diverse governance contexts. The analysis finds that the USA applies conditionality selectively and often in line with geopolitical priorities; China advances flexible, non-interference-oriented financial mechanisms that generate asymmetric dependence and limited human-rights safeguards; and the EU exercises regulatory power through market access and supply-chain compliance, though outcomes remain uneven due to political fragmentation and implementation gaps.

The paper argues that financial soft power is not normatively neutral and may either reinforce or undermine human rights depending on coherence, transparency, and accountability. It concludes by outlining pathways for strengthening rights-based criteria in financial and regulatory diplomacy.


**Keywords:** United States (USA); China; European Union (EU); financial soft power; policy conditionalities; compliance regimes; human rights

## Introduction

Financial soft power has become one of the most consequential instruments in twenty-first-century global governance. As geopolitical rivalry intensifies and traditional military or treaty-based tools face diminishing returns, major actors increasingly rely on codes of compliance and policy conditionalities to shape international behavior through financial channels (Li, 2023; Erie, 2022; Oud, 2022). Access to investment, development financing, trade privileges, credit guarantees, and global markets is now tightly interwoven with expectations about governance, regulatory conformity, and strategic alignment. Within this evolving landscape, the United States (USA), the People's Republic of China (PRC), and the European Union (EU) have emerged as the most influential architects of global financial governance, each advancing distinct conditionality frameworks grounded in divergent political systems, economic models, and normative aspirations (Godement & Vasselier, 2017; CEPS, 2025; Business Europe, 2020).

The United States (USA) continues to mobilize financial and regulatory levers through a mix of strategic-selective conditionality, leveraging its global currency dominance, development funding instruments, sanctions architecture, and influence in multilateral institutions (Deshpande, 2025). China promotes a contrasting model built around pragmatic, state-driven financing flows, particularly through the Belt and Road Initiative (BRI), combining non-interference rhetoric with embedded institutional requirements that shape recipient-state behavior (Li, 2023; Erie, 2022). The EU, meanwhile, pursues a comprehensive normative-regulatory strategy, projecting standards outward through market access rules, trade regimes, and supply-chain due-diligence frameworks often described as the "Brussels Effect" (CEPS, 2025; European Commission, 2019).

Despite their differences, these three actors use financial soft power to pursue overlapping goals: shaping regulatory environments, influencing geopolitical alignments, and embedding long-term structural dependencies. Yet the human rights implications of these practices remain uneven, contested, and inadequately understood. Conditionalities may promote transparency, labor protections, and environmental safeguards — or, conversely, reinforce elite capture, restrict civic space, exacerbate inequality, or undermine social protections (Cassarino, 2025; Oud, 2022). The effects depend not only on the nature of imposed standards but also on recipient-state governance structures, distributional outcomes, and the transparency of financial arrangements (European Union Chamber of Commerce in China, 2018; European Commission, 2019).

Existing scholarship on financial statecraft, global political economy, climate-change justice, illiberal governance, and human-security analysis provides valuable insights for understanding these dynamics (Deshpande, 2025; Cassarino, 2025; Erie, 2022). Studies on climate finance and structural inequalities highlight how financial flows produce differentiated burdens and opportunities across the global South and global North. Research on illiberal governance and restricted civic space shows how foreign financing may empower authoritarian actors or weaken minority protections. Human-security perspectives underscore how regulatory decisions reverberate through economic livelihoods, community resilience, and social welfare. These analytical traditions inform the present study's evaluation of how USA, Chinese, and EU conditionalities shape rights outcomes in diverse political environments (Oud, 2022; Godement & Vasselier, 2017).

The intensifying competition between the United States (USA), the People's Republic of China (PRC), and the European Union (EU) increasingly relies not only on conventional economic and military tools but also on financial soft power — the strategic deployment of investment, trade agreements, aid, and regulatory frameworks to influence global norms and behavior (Oud, 2022; Godement & Vasselier, 2017). While the EU and the USA have historically attempted to promote human rights through engagement with China, these efforts are often fragmented and subordinate to commercial priorities, resulting in limited normative impact (Oud, 2022).

China's rise under President Xi Jinping has shifted it from a passive rule-taker to an assertive international norm entrepreneur, actively shaping regulatory and financial environments abroad to align with its domestic governance model (LI, 2023; Erie, 2022). In contrast, the EU leverages its regulatory power, exemplified by the "Brussels Effect," to enforce compliance in areas such as data protection and environmental standards, yet internal heterogeneity and gaps in enforcement challenge the consistency of human rights outcomes (CEPS, 2025; European Commission, 2019). The USA, meanwhile, deploys financial conditionalities selectively, balancing normative goals with strategic interests, often subordinating human rights objectives to geopolitical and economic priorities (Deshpande, 2025; Ma, 2024).

Insights from studies on climate change justice, illiberal governance, and wartime human security demonstrate that financial soft power can have both positive and negative implications for vulnerable populations, particularly in regions with weak governance or heightened geopolitical exposure (Hadžić, 2021a, 2021b, 2021c). These dimensions underscore the necessity of integrating human rights considerations into financial instruments and regulatory conditionalities to prevent exacerbating inequalities or undermining civic pluralism.

This paper develops a comparative, multidimensional analysis of the USA, China, and the EU as global financial powers. It examines how each actor formulates codes of compliance, attaches political or regulatory conditions to financial flows, and influences human-rights practices through direct incentives, indirect pressures, or institutional embeddedness (CEPS, 2025; Li, 2023). By integrating institutional analysis, critical political-economy perspectives, international-relations theory, and human-rights assessment, the study identifies the mechanisms through which financial soft power generates both opportunities and risks for rights protection (Erie, 2022; Deshpande, 2025).

The central argument advanced here is that financial soft power is not normatively neutral**.** Conditionality regimes — whether framed as liberal democratic, market-oriented, development-focused, or sovereignty-respecting — inevitably produce distributional consequences that shape human rights and human security. The USA's selective conditionality, China's pragmatic instrumentalism, and the EU's normative-regulatory approach all influence rights outcomes, but in systematically different ways. Understanding these variations is essential for assessing whether and how financial soft power can advance equitable governance, protect vulnerable populations, and promote pluralistic civic space (Business Europe, 2020; Cassarino, 2025; Oud, 2022).

The paper next outlines the theoretical and analytical framework, then compares the USA, China, and EU models of financial soft power, before assessing human rights implications and concluding with policy recommendations.

## Theoretical and Analytical Framework

Understanding how the USA, China, and the EU leverage financial soft power requires an analytical lens capable of capturing the complex interactions between political authority, economic influence, and normative expectations. This study adopts a **c**omparative, qualitative framework grounded in institutional analysis, critical political economy, international relations, and human-rights assessment, drawing additional insights from scholarship on climate justice, illiberal governance, and human security (Deshpande, 2025; Cassarino, 2025; Erie, 2022).

### Conceptualizing Financial Soft Power

Financial soft power refers to the capacity of a state or regional actor to shape the preferences and behavior of other actors through economic incentives, regulatory frameworks, and institutional leverage, rather than through coercion or military means (Li, 2023; Erie, 2022). Unlike hard power, which relies on direct enforcement, financial soft power operates indirectly, shaping norms, compliance expectations, and economic dependencies in ways that align recipient behavior with donor objectives. Instruments include conditional loans, development finance, trade facilitation, regulatory alignment, and market access incentives (Business Europe, 2020; CEPS, 2025).

Codes of compliance, in this context, are formal or semi-formal standards and obligations embedded within financial instruments**,** requiring recipients to adopt specific regulatory, procedural, or governance practices. Policy conditionalities represent explicit or implicit requirements attached to the allocation of resources, ranging from transparency and anti-corruption measures to broader human-rights or environmental commitments (European Commission, 2019; Oud, 2022).

**Comparative Analytical Lens**

The study applies a triangular comparative approach, examining each actor across three dimensions:

1. Institutional embeddedness: How financial instruments are linked to domestic or supranational regulatory frameworks. The EU, for example, leverages supply-chain due diligence, ESG compliance, and standard-setting instruments to enforce regulatory alignment among partner states (CEPS, 2025). China embeds compliance expectations within state-directed investment projects and bilateral agreements, emphasizing recipient alignment with domestic priorities and strategic interests (Li, 2023). The USA uses a combination of sanctions architecture and selective incentives, often subordinating normative objectives to geopolitical and security considerations (Deshpande, 2025).

2. Normative content: The degree to which financial conditionalities incorporate principles such as human rights protection, labor standards, environmental stewardship, or civic pluralism (Oud, 2022; Cassarino, 2025). The EU's regulatory approach explicitly integrates these criteria, whereas China's model emphasizes non-interference and reciprocity, and the USA's selective strategy focuses on aligning compliance with national security and strategic alliances (Erie, 2022).

3. Impact pathways: Mechanisms through which financial soft power shapes behavior, ranging from direct compliance with contractual obligations, to indirect norm diffusion, to structural influence over domestic economic or political configurations (Business Europe, 2020; European Union Chamber of Commerce in China, 2018).

## Human Rights and Governance Considerations

Financial soft power is not normatively neutral. Conditionalities can reinforce governance and rights protection or, conversely, empower authoritarian actors, constrain civic space, and exacerbate socio-economic inequalities (Deshpande, 2025; Cassarino, 2025). For example, EU supply-chain compliance regulations, such as the Corporate Sustainability Due Diligence Directive (CSDDD), aim to ensure that investments do not contribute to labor exploitation or environmental degradation, promoting human security and climate justice outcomes (CEPS, 2025). In contrast, Chinese investment conditionalities in developing countries prioritize economic and strategic alignment over rights-based standards, potentially reinforcing illiberal governance structures while enabling infrastructural and industrial development (Li, 2023; Erie, 2022). USA financial soft power employs a dual approach**,** combining market incentives with sanctions and selective normative expectations, often yielding uneven human-rights outcomes depending on geopolitical priorities (Deshpande, 2025).

## Methodological Considerations

This paper employs a qualitative, comparative methodology**,** drawing on documentary analysis, policy briefings, and empirical reports (Oud, 2022; European Commission, 2019; CEPS, 2025). By triangulating institutional analysis with normative assessment and critical human-security perspectives, the study identifies patterns in how financial soft power instruments are designed, implemented, and experienced in different contexts. Comparative case selection — the USA, China, and the EU — allows for systematic cross-actor evaluation, highlighting differences in enforcement, conditionality content, and human-rights implications.

The methodology incorporates insights from scholarship on climate justice, illiberal governance, and human security to evaluate how financial instruments shape broader societal outcomes, including protection of minority rights, civic pluralism, and socio-economic equity (Cassarino, 2025; Deshpande, 2025; Erie, 2022).

### Analytical Rationale

The rationale for this framework is to provide a holistic lens for understanding the multidimensional effects of financial soft power. By integrating institutional, normative, and impact-oriented perspectives, the study moves beyond simplistic "engagement vs. containment" debates, offering nuanced insights into how financial leverage interacts with political and socio-economic structures to influence human rights outcomes (Oud, 2022; Godement & Vasselier, 2017).

## Comparative Analysis of Financial Soft Power Instruments and Conditionalities

### USA Model: Strategic Selective Conditionality and Human Rights Implications

#### *Overview of USA Mechanisms: Sanctions, Export Controls, and Investment Screenings*

The United States (USA) increasingly frames financial soft power as a tool of economic statecraft — leveraging its institutional capacity to impose sanctions, export controls, and investment screening as means of ensuring compliance with strategic, security, or normative preferences. Contemporary legislation, such as the strengthened mandate of the Committee on Foreign Investment in the United States (CFIUS), as well as broader multipronged controls over outbound and inbound investments, demonstrate a systematic shift in USA regulatory behavior. Recent rules target sensitive technologies, infrastructure, and advanced manufacturing sectors.

These instruments heighten the compliance burden for global firms operating in or with the United States (USA) and complicate supply-chain design and financial flows. They produce a form of "soft coercion": access to USA markets and capital becomes contingent not only on economic performance, but on political and security alignment. Firms that ignore these conditionalities risk exclusion, sanctions, or loss of financial access — effectively intertwining global business strategies with geopolitical compliance.

Importantly, recent empirical evidence suggests that such sanctions — and broader trade restrictions — increase financial risk in target countries, particularly in low and lower-middle-income states, where reduced trade openness and constrained financial development result in higher economic vulnerability (Bambini et al., 2025).

China's conditionality approach in developing countries blends economic inducements with regulatory expectations, often requiring host states to adhere to strategic projects that advance China's industrial and technological interests (Erie, 2022; Li, 2023). For instance, infrastructure investments under the Belt and Road Initiative frequently come with contractual clauses that implicitly guide governance and labor practices, while avoiding explicit human rights obligations, raising questions about their normative legitimacy (Godement & Vasselier, 2017; Hadžić, 2021a).

The European Union (EU's) supply-chain compliance framework exemplifies how regulatory soft power can embed human rights and environmental standards in corporate operations across borders. Regulations such as the EU's Conflict Minerals Regulation, Corporate Sustainability Due Diligence Directive (CSDDD), and the Deforestation Regulation require European and non-European firms to report on sourcing and labor practices, creating indirect leverage over third-country partners (CEPS, 2025; European Commission, 2019). Yet, enforcement remains uneven, particularly in regions where monitoring capacity is weak or where EU regulations face resistance from host governments (Business Europe, 2020; Hadžić, 2021b).

The United States (USA) employs a hybrid strategy, combining selective investment restrictions, export controls, and foreign asset blocking with targeted human rights conditionalities. Multinational corporations navigating USA and Chinese regulatory conflicts face complex compliance dilemmas, as adhering to one jurisdiction often entails contravening another (Li, 2023; Deshpande, 2025). This underscores the intersection of financial strategy, legal compliance, and normative accountability, revealing how soft power mechanisms can simultaneously advance and constrain human rights objectives.

**Effects on Innovation, Corporate Behavior, and Supply-Chain Reconfiguration**

While sanctions and export controls are often justified under security or normative grounds, their economic ripple effects are profound. Research on Chinese firms placed under USA sanctions found a paradoxical effect: rather than merely suppressing corporate capacities, sanctions stimulated certain firms to increase innovation efforts, particularly when offset by internal state support or government subsidies (Zhou et al., 2025).

However, at a systemic level, sanctions — especially when broad and technology targeted — disrupt global supply-chains, provoke realignment away from sanctioned markets, and generate structural uncertainties. Firms outside the immediate target may suffer collateral effects, including higher compliance costs, supply delays, and the need to restructure sourcing and production. This carries implications for global trade flows, corporate governance, and the viability of long-term development projects (Kang & Lee, 2023).

Moreover, when sanctions are applied under pretexts related to human rights — such as forced labor or coercive practices — they integrate normative conditionalities into financial incentives, effectively using market access as leverage to enforce ethical standards (Fischer & Müller, 2024).

**Human Rights Implications: Selectivity, Dependence, and Geopolitical Leverage**

The USA model's defining characteristic is selective conditionality — human rights and normative goals often appear but are applied unevenly and subordinated to strategic interests. In practice, the decision to impose sanctions or export restrictions frequently depends on geopolitical alignments rather than universal normative consistency. This raises questions about the legitimacy and fairness of conditionalities, and whether they advance human rights comprehensively or simply serve as instruments of pressure.

For states highly dependent on foreign capital, trade, and investment, USA-led conditionalities may create financial vulnerability and dependency. Vulnerable economies — particularly in the Global South — face the prospect of sudden disinvestment, capital flight, or supply-chain disruption if they fail to comply with USA policy preferences or strategic demands.

This can erode structural economic stability, undermine institutional autonomy, and weaken the capacity of states to protect civil and social rights (Bambini et al., 2025).

Furthermore, the reliance on long arm jurisdiction and export controls extends USA regulatory reach globally, potentially eroding host states' regulatory sovereignty and complicating their pursuit of independent development strategies. This model represents a modern form of "weaponized interdependence," where access to global financial and trade networks becomes conditional upon compliance with USA security or political prerogatives (Hale, 2023).

**China's Model: State-driven Financing, Embedded Conditionalities, and Dependence**

***Overview of China's Financial Soft Power Instruments***

China employs a state-directed model of financial soft power that relies heavily on government-backed financing, infrastructure investment, and bilateral development programs. Through initiatives such as the Belt and Road Initiative (BRI), China provides loans, grants, and equity investment to partner countries, particularly in Asia, Africa, and Europe, often accompanied by implicit or explicit policy conditionalities (Oud, 2022; Godement & Vasselier, 2017). These conditionalities can include requirements to prioritize Chinese contractors, use Chinese standards, or align with Beijing's broader strategic objectives. This approach allows China to embed its regulatory, technological, and political preferences in host countries while promoting economic engagement that favors domestic firms.

China's soft power instruments are framed less as normative interventions and more as mutually beneficial economic arrangements, though in practice they create dependence on

Chinese financing and technical expertise. Unlike the USA, whose sanctions and export controls impose compliance externally, China's financial engagement integrates conditionalities directly into the terms of investment contracts and bilateral agreements (Li, 2023).

**Conditionality in Developing Countries and Supply-Chain Integration**

China's embedded investment conditionalities are particularly influential in developing countries where alternative sources of finance are limited. These conditionalities often take the form of procurement rules, joint venture requirements, and technology-sharing arrangements. Evidence from African and European partner countries shows that Chinese investments are typically accompanied by expectations that local infrastructure, supply-chains, and regulatory frameworks will be harmonized with Chinese standards (CEPS, 2025; Erie, 2022). For example, the Global Gateway and clean trade initiatives demonstrate China's capacity to mobilize private sector engagement under frameworks that align with both domestic and host-country objectives.

This approach encourages integration of local supply-chains with Chinese technology and regulatory practices, which can accelerate infrastructure development but also create long-term dependence on Chinese financing and technical assistance. Scholars note that such embedded conditionalities may reduce policy autonomy in host countries, as national regulatory frameworks are often reconfigured to comply with Chinese project requirements (Business Europe, 2020).

## Legal, Regulatory, and Normative Dimensions

China's financial engagements are underpinned by the expansion of its legal and regulatory influence internationally. While Chinese law is rarely applied directly in cross-border contracts, Chinese parties increasingly encourage the adoption of Chinese technical and operational standards (Erie, 2022). This aligns host-country practices with Beijing's domestic governance priorities, effectively extending Chinese soft power through compliance mechanisms embedded in investment agreements. The "China Standards 2035" initiative exemplifies this strategy by promoting Chinese standards in emerging technology sectors such as telecoms, IoT, and green energy production, reinforcing Beijing's normative influence (CEPS, 2025).

## Human Rights Implications: Dependence and Strategic Leverage

The human rights implications of China's conditionality approach are complex. By embedding expectations into economic agreements, China increases host-country dependence on its financing, potentially constraining domestic policy space to address human rights issues. In Europe, for example, engagement with China on investment and infrastructure has required member states to balance access to Chinese capital against commitments to environmental, labor, and social standards (Godement & Vasselier, 2017).

Moreover, China's selective engagement allows it to leverage soft power for strategic gains without publicly committing to universal human rights norms. By contrast with the EU's regulatory conditionalities, which explicitly promote normative compliance, China prioritizes alignment with its own governance model and economic objectives, often producing uneven human rights outcomes across countries (Oud, 2022).

In sum, China's financial soft power strategy is characterized by state-driven investment, embedded conditionalities, and normative influence via standards and technical frameworks. While effective in promoting economic and strategic objectives, it generates host-country dependence and may limit the consistent application of human rights norms.

## The EU Model: Regulatory Conditionality, Supply-Chain Compliance, and Civic Pluralism

### *Overview of EU Financial Soft Power*

The European Union (EU) wields financial soft power primarily through regulatory frameworks, trade agreements, and investment screening mechanisms, often collectively described as the "Brussels Effect" (CEPS, 2025). Unlike China's state-driven approach or the USA's strategic conditionalities, the EU combines market leverage with normative commitments to human rights, environmental standards, and labor protections. By exporting its regulatory norms and promoting compliance, the EU influences both partner countries and global supply-chains (European Commission, 2019). Its approach is less about direct economic inducements and more about shaping the rules of engagement for international trade and investment.

The EU's financial soft power operates through both "hard" and "soft" conditionalities. Hard conditionalities include enforceable obligations in trade and investment agreements, while soft conditionalities rely on incentives, technical assistance, and reputational pressure to encourage compliance with EU norms (Cassarino, 2025). This dual mechanism allows the EU to extend influence while promoting normative objectives such as human rights, sustainability, and transparency.

### Supply-Chain Compliance and Regulatory Leverage

EU regulatory influence extends deeply into global supply-chains. Companies seeking access to the European market must comply with rules on labor rights, environmental sustainability, and corporate governance. For instance, the EU Deforestation Regulation obliges firms to ensure that imported commodities do not contribute to deforestation, effectively imposing compliance obligations on suppliers worldwide (CEPS, 2025).

Similarly, the Corporate Sustainability Due Diligence Directive (CSDDD) and ESG reporting requirements link market access to adherence to human rights and environmental standards (Cassarino, 2025). These mechanisms create conditionality embedded in trade and investment relationships, leveraging the EU's market size and normative authority to influence both corporate behavior and state policies globally.

### Human Rights Implications

The EU model has significant potential to advance human rights internationally. By integrating social and environmental standards into market access rules, the EU incentivizes corporate accountability and alignment with international norms (Oud, 2022). Unlike China's investment-centric approach, EU regulations impose formal obligations on firms and states engaging with European markets, offering more direct normative leverage (CEPS, 2025).

However, gaps remain. Variations in enforcement among member states, bureaucratic complexity, and differing capacities of trading partners can limit effectiveness. European firms operating in China, for example, still face restrictive licensing, equity caps, and opaque regulatory barriers, which constrain their ability to comply fully with EU standards (Business

Europe, 2020). Instruments like CBAM or CSDDD have also been criticized as burdensome for partners, raising concerns about inclusivity and equity (CEPS, 2025).

**Strategic and Geopolitical Impact**

EU regulatory soft power allows Brussels to shape global industrial and technological standards, particularly in emerging sectors such as renewable energy, critical raw materials, and digital technologies (CEPS, 2025; Deshpande, 2025). By exporting compliance expectations through trade and investment partnerships, the EU indirectly influences domestic policies in partner countries and promotes civic pluralism and human rights protections.

Nevertheless, the EU's effectiveness depends on credibility, coherence, and enforcement. Its influence is challenged by actors like China, which prioritize strategic over normative alignment, and by the USA in sectors where geopolitical competition dominates (Li, 2023). The EU must balance regulatory leverage with engagement strategies that protect human rights while maintaining economic and technological competitiveness.

**Comparative Lessons Across USA, China, and EU Models**

The comparative analysis of the three models highlights distinct approaches:

Institutional Embeddedness Matters: Systemic compliance mechanisms, as in the EU model, produce more predictable human rights outcomes than selective or opportunistic conditionalities (CEPS, 2025).

Strategic versus Normative Prioritization: The USA model illustrates tension between human rights promotion and geopolitical interests (Oud, 2022; Li, 2023).

Reciprocity-Based Leverage: China demonstrates how economic inducements can secure strategic alignment without advancing human rights (Erie, 2022).

Multi-Actor Interdependence: Overlapping interventions by major powers create complex compliance environments where corporations and states navigate divergent expectations, often resulting in inconsistent human rights outcomes (Cassarino, 2025; Deshpande, 2025).

**Implications for Human Rights Strategy**

Effective integration of human rights into financial soft power requires coherence, transparency, and enforcement capacity. For the EU, stronger enforcement across member states and global supply-chains is critical. For the USA, increased normative consistency and reduced selectivity could improve credibility. For China, promoting alignment with international ESG and human rights standards through targeted partnerships may enhance normative legitimacy (Erie, 2022; Godement & Vasselier, 2017).

**Summary**

In conclusion, financial soft power is a potent instrument for shaping international behavior, but its human rights impact depends on alignment between compliance codes, conditionality mechanisms, and enforcement rigor. Strategic divergence among the USA, China, and EU generates both opportunities and challenges for advancing global human rights norms, especially in developing countries or in contexts with weak institutional capacity. Understanding these models is essential for designing policies that are simultaneously strategically effective and normatively responsible.

## Comparative Analysis of USA, China, and EU Models: Codes of Compliance, Policy Conditionalities, and Human Rights Outcomes

### Divergent Approaches to Financial Soft Power

The USA, China, and EU represent distinct financial soft power models, each embedding compliance expectations and policy conditionalities in ways reflecting strategic priorities, normative frameworks, and institutional capacities (Li, 2023; Cassarino, 2025).

**Table 1**

*Comparative Models of Financial Soft Power and Human Rights Outcomes*

| Actor | Mechanism | Compliance/Conditionality | Normative Emphasis | Human Rights Impact |
|---|---|---|---|---|
| **USA** | Aid, trade agreements, multilateral finance | Selective, strategic enforcement | Normative but subordinated to strategic interests | Mixed, credibility issues |
| **China** | State-backed investment, BRI, bilateral loans | Instrumentalized, flexible, reciprocity-based | Limited normative focus, primarily economic leverage | Often minimal direct improvement may reinforce authoritarianism |
| **EU** | Regulatory standards, trade frameworks, ESG integration | Systemic, institutionally embedded | Strong normative content, rule-of-law oriented | Moderate to strong, contingent on enforcement and member cohesion |

Uneven human rights outcomes are most pronounced in illiberal governance contexts, where institutional capacity and civic pluralism are limited (as discussed earlier in the EU subsection).

## Codes of Compliance

Compliance mechanisms differ in both design and operationalization. The EU's regulatory framework codifies normative principles through instruments like CSDDD and supply-chain regulations (CEPS, 2025). The USA uses selective, strategic conditionality, prioritizing geopolitical alignment over systemic norm enforcement (Li, 2023). China emphasizes reciprocity and strategic alignment, embedding domestic governance expectations externally while avoiding broader international normative pressures (Erie, 2022).

## Policy Conditionalities

Policy conditionalities reflect each actor's strategic, economic, and normative priorities. The USA links financial access, trade benefits, and aid with governance and human rights reforms, though enforcement is politically mediated (Cassarino, 2025). The EU embeds compliance into trade and investment standards, ensuring adherence to codes of conduct through ESG-driven instruments (CEPS, 2025). China relies on flexible, incentive-based conditionalities, emphasizing project-specific reciprocity while often bypassing broader normative obligations (Godement & Vasselier, 2017).

## Human Rights Implications

Human rights outcomes vary significantly across the three models. The EU demonstrates consistent normative alignment but remains vulnerable to enforcement gaps and heterogeneity among member states (CEPS, 2025; Godement & Vasselier, 2017). The USA produces ad hoc outcomes due to selective enforcement and political prioritization, creating credibility dilemmas (Oud, 2022; Li, 2023). China's model, though economically influential, rarely advances human rights and may indirectly reinforce authoritarian governance structures (Erie, 2022; Godement & Vasselier, 2017).

**Intersections and Global Governance**

Despite differences, these actors increasingly intersect in global governance and standard-setting in areas such as digital economy regulation, climate finance, and supply-chain compliance. The EU's Brussels Effect influences Chinese adherence to environmental and privacy standards, while USA strategic conditionalities shape corporate compliance in regions aligned with American geopolitical interests (CEPS, 2025; Deshpande, 2025). China's "China Standards 2035" initiative illustrates an assertive attempt to define rules in emerging technologies, creating competitive environments where normative and strategic objectives intersect (Deshpande, 2025; Erie, 2022).

## Lessons and Critical Insights

1. Institutional Embeddedness Matters: Systemic mechanisms, like those of the EU, yield predictable human rights outcomes (CEPS, 2025).

2. Strategic vs Normative Prioritization: The USA illustrates tension between human rights promotion and geopolitical objectives (Oud, 2022; Li, 2023).

3. Reciprocity-Based Leverage: China demonstrates economic inducements securing strategic alignment without advancing human rights (Erie, 2022).

4. Multi-Actor Interdependence: Overlapping interventions create complex compliance environments with inconsistent human rights outcomes (Cassarino, 2025; Deshpande, 2025).

## Implications for Human Rights Strategy

Effective integration of human rights into financial soft power requires coherence, transparency, and enforcement. For the EU, robust enforcement across member states and supply-chains is essential. The USA could enhance normative consistency and reduce selective application. For China, aligning investment projects with international ESG and human rights standards through partnerships may improve normative legitimacy (Erie, 2022; Godement & Vasselier, 2017).

## Conclusion and Policy Recommendations

### Synthesis of Findings

This study analyzed how the USA, China, and EU leverage codes of compliance and policy conditionalities as instruments of financial soft power.

EU: Systemic, rules-based, normative, promoting human rights through regulatory leverage, though enforcement gaps exist.

USA: Selective conditionalities prioritize strategic interests, producing uneven human rights outcomes and credibility challenges.

China: Flexible, reciprocity-based investments prioritize economic alignment over normative commitments, occasionally reinforcing authoritarian governance.

Interactions among these models illustrate multi-polarity complexity, regulatory convergence, and overlapping engagements, challenging corporations, and states to navigate competing expectations (Deshpande, 2025; Cassarino, 2025).

### Critical Insights

1. Coherent normative commitment is essential for predictable human rights outcomes.

2. Enforcement capacity determines impact; selective enforcement reduces credibility.

3. Recognizing the tension between strategic and normative priorities is vital for policy design.

4. Global interdependence requires multilateral coordination to manage conflicting obligations.

## Policy Recommendations

*For the EU:*

- Strengthening enforcement across member states and supply-chains.
- Expand capacity-building initiatives for developing countries.
- Strategically leverage regulatory influence in emerging technological sectors.

*For the USA:*

- Increase consistency in human rights conditionalities.
- Align strategic interests with normative commitments.
- Enhance cooperation with like-minded partners, including the EU.

*For China:*

- Encourage alignment with international standards in targeted sectors.
- Increase transparency in investment conditionalities.
- Engage with multilateral institutions to improve normative legitimacy.

## Final Reflections

Financial soft power is most effective when compliance codes, conditionality mechanisms, and enforcement capacity are coherently aligned. Context-sensitive design and multi-actor coordination are critical in illiberal or weak institutional environments. Codes of compliance and conditionalities are powerful levers shaping state behavior, corporate practices, and international norms. Understanding USA, China, and EU strategies provides guidance for designing policies that are both strategically effective and normatively responsible.

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