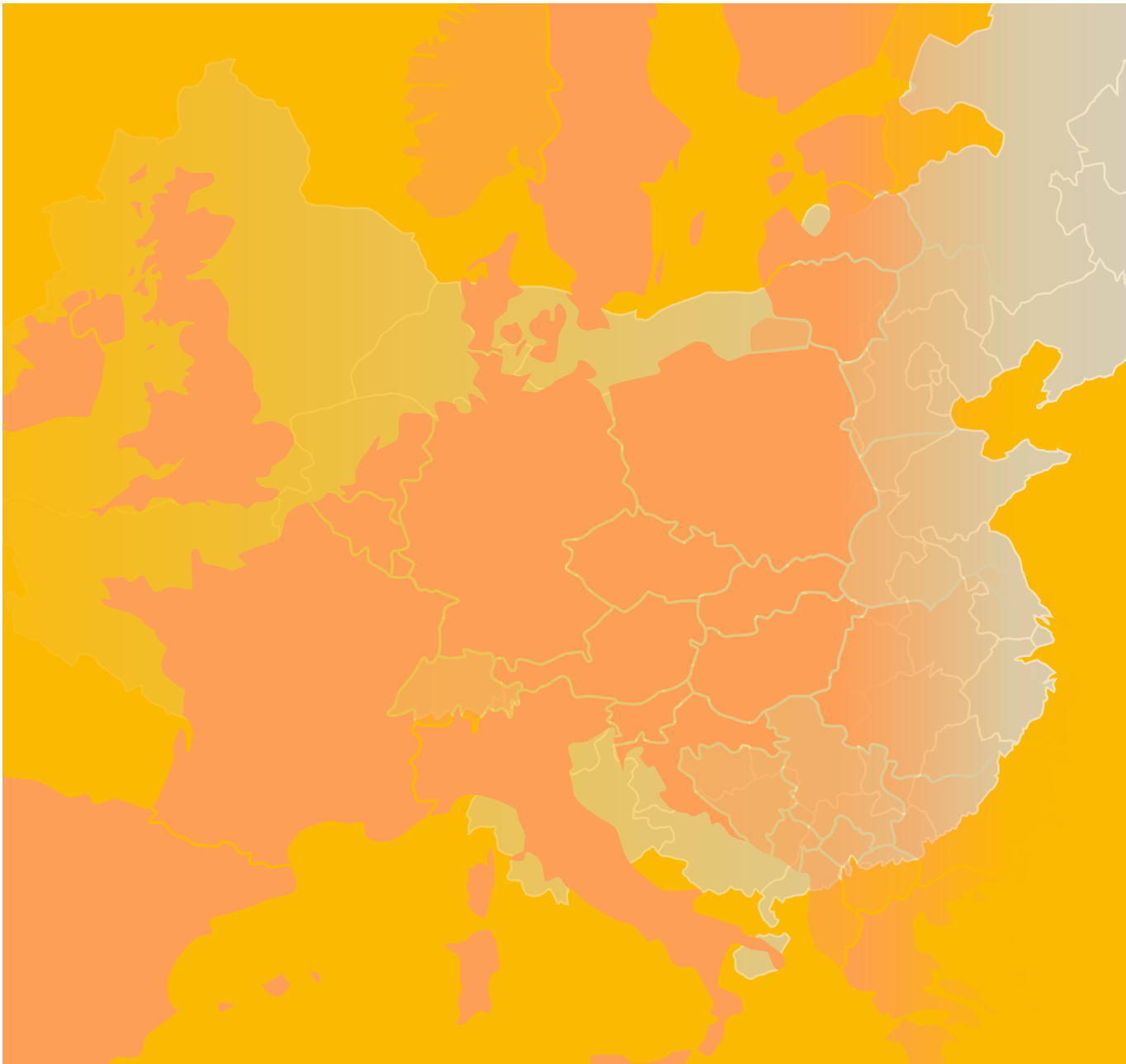


# Mapping Europe-China Relations

## A Bottom-Up Approach

Edited by Mikko Huotari, Miguel Otero-Iglesias,  
John Seaman and Alice Ekman



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A report by the European Think-tank Network on China (ETNC)



ULKOPOLIITTINEN INSTITUUTTI  
UTRIKESPOLITISKA INSTITUTET  
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## Foreword

The European Think-tank Network on China (ETNC) is a gathering of China experts from a selection of European policy research institutes. It is devoted to the study of Chinese foreign policy and EU-China relations and facilitates regular exchanges among participating researchers. ETNC strives to deepen the understanding of how Europe, as a complex set of actors, relates with China and how China's development and evolving global role will impact the future of Europe. In particular, when examining the EU-China relationship, the network's discussions, analyses and recommendations take a decidedly 'bottom-up' approach, examining the bilateral relationships between EU member states and China in order to generate a more complex perspective on the broader EU-China relationship.

The network was first launched on the initiative of the Elcano Royal Institute and the French Institute of International Relations (Ifri) at Ifri's office in Brussels on 6 November 2014. This meeting brought together experts from eleven member states, as well as observers from EU institutions. The members of ETNC decided to meet in a different capital every six months and the Mercator Institute of China Studies (MERICS) joined Elcano and Ifri in their efforts to move the project forward. A second meeting was subsequently held on 17 April at Elcano's offices in Madrid. The analyses that follow were written as part of these inaugural meetings.

The goals of the ETNC are:

- To facilitate regular exchanges among European researchers on key issues related to China and Chinese foreign policy, and in particular on how they relate to the EU and individual EU member states.
- To generate discussions among European policy experts on bilateral relationships between EU member states and China, and subsequently on the EU-China relationship more broadly.
- To contribute to the analysis of China's emerging grand strategy by focusing on European perspectives, with an eye on how this crucial relationship impacts the broader global economic and political order.
- To provide recommendations for the conduct of Europe-China relations based on in-depth discussions and research conducted by experts within the network.
- To create a European pool of expertise and contact networks in and on China that can be activated and utilized whenever one of the participating members requires it.

Ultimately, the main aim of ETNC is to enhance European expertise, knowledge and networking capacity on China's foreign policy and its foreign relations with the EU member states and the EU itself by focusing on all the different levels of interaction. These range from the local to the supranational, but this and future ETNC reports will consider the national sphere as the analytical point of departure. Most of the interactions with China happen at the national level, and overlooking them would be a mistake. The EU is a supranational entity composed by 28 member states with 28 different foreign policies towards China. Only by understanding each one of them in

depth will it be possible to offer advice to the member states' governments and EU institutions on how to coordinate policies more effectively.

This report is the first in an on-going effort of dissecting and re-assembling Europe-China relations from an EU member state perspective. As ETNC develops, recommendations will emerge on how these member states and the EU as a whole can better coordinate their various approaches to China. In this regard, ETNC strives for a broad, pan-European representation in the network and thus encourages institutions with experts on China from member states that are not yet present to join the initiative. Thus, we are looking forward to expanding the ETNC network and to further institutionalise our regular exchanges and collaborative work.

## **List of institutions contributing to ETNC**

### *Coordinating institutions*

- Elcano Royal Institute, Spain
- French Institute of International Relations (Ifri), France
- Mercator Institute for China Studies (MERICS), Germany

### *Participating institutions*

- Institute of International Relations, Czech Republic
- The Finnish Institute for International Affairs, Finland
- Institute of International Economic Relations, Greece
- EU-Asia Institute, ESSCA School of Management, Budapest, Hungary
- Institute of International and European Affairs, Ireland
- Istituto Affari Internazionali (IAI), Italy
- The Netherlands Institute of International Relations, 'Clingendael', The Netherlands
- Polish Institute of International Affairs (PISM), Poland
- University of Aveiro, Portugal
- National University of Political and Administrative Studies (NUPAS), Romania
- Swedish Institute of International Affairs, Sweden
- Chatham House, United Kingdom

## **Important disclaimer**

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## Executive summary

As China's rise continues to shape and shake the course of international affairs, and Europe enters a new chapter in its collective history, Europe-China relations are becoming more relevant, but also much more complex.

Understanding these complexities requires a precise examination of the various state-level bilateral relationships and interests at play between China and the EU countries. From such a bottom-up perspective, this report makes a number of observations:

- For all EU member states, **interdependence in economic relations with China has increased and political relations have gained in maturity and depth**. High-level exchanges between European capitals and Beijing are much more frequent.
- **The context of EU-China relations has dramatically changed over the past five years**. China's interest in Europe is expanding into new areas, both geographically (Central, Eastern and Southern Europe) and in substance (for instance with increasing Chinese investment in Europe). **Europe is encountering a much more proactive China on the diplomatic front** and the contours of the relationship are increasingly designed in Beijing. **Asymmetries in EU member states' relations have turned increasingly to Beijing's favour**. European governments find their relative influence over Beijing waning. This is exacerbated by their lack of communication, cohesion and, consequently, their inability to formulate common policies.
- Indeed, in **dealing with China, Europe is divided and competes with itself**. This competition, or at the very least lack of coordination on China policies, stems more from deficiencies within Europe than from a deliberate Chinese strategy to divide the continent. With growing competition for Chinese investments, for instance, China is presented with 28 'gateways to Europe'. In return, China has been keen to re-package this argument and highlight the special nature of its relationship with individual European partners.
- While some common patterns exist, **new trends in investment and trade relations with China are highly differentiated across Europe**. This fundamentally complicates a joint European response vis-à-vis China with regard to pressing issues such as granting China Market Economy status and with regard to ongoing or upcoming negotiations of trade and investment agreements.
- **China is following its own distinct and flexible foreign policy approach when dealing with Europe**. It constantly assesses new developments in European markets, adjusts to changes in the domestic and regional context as much as possible and looks to seize opportunities whenever they emerge. Europe is important for China as an economic partner, but **the Europeans – the EU and its individual member states – are also key players in China's broader global**

**strategic initiatives**, such as the 'One Belt, One Road' (OBOR) project, the reconfiguration of multilateral and international institutions (as witnessed with the creation of the Asian Infrastructure and Investment Bank – AIIB), and the emergence of a more multipolar global order.

- Despite some modest efforts to develop genuine strategic dialogues, most, if not all **European national strategies towards China are dominated by the logic of economics**. The state of the European economy has caused many to look to China in recent years as a potential source of growth, or a diversification of economic interests that are intricately tied to the rest of Europe and, for many countries in Central and Eastern Europe (CEE) in particular, uncomfortably tied to Russia. In this context, many **European states are continuing to make hard choices between political ideals, such as the promotion of democracy and human rights in China, and their economic strategy**. While for many these political ideals remain in place, their prominence in the bilateral relations with Beijing has weakened, and actions taken by individual states on this front have rarely been met with support from other EU partners.

While this report is a first step toward understanding the dynamics and multi-layered complexity of EU-China relations, it is still premature for ETNC – as a new expert network – to provide policy recommendations on how to better coordinate the EU's foreign policy towards China. Following a bottom-up approach, we strongly believe that more cohesive European policies can only be designed once the individual bilateral relations are properly understood. This first report therefore provides an initial, detailed mapping of some of these relations. Ideally, this exercise will be repeated on a regular basis and expanded to comparative analyses of specific developments and concrete policy items in EU-China relations.



# Introduction: Dissecting and re-assembling Europe-China relations

## 1

*Miguel Otero-Iglesias, John Seaman, Mikko Huotari and Alice Ekman*

Relations between the European Union and China cannot be understood as a classical bilateral relationship. Policy research that focuses solely on the EU level misses the main drivers and consequences of shifting China-Europe relations. The EU's approach to China is just the surface layer of a multitude of bilateral relationships and national interests involved. The lack of a common foreign and security policy and the absence of clear political authority at the EU level, together with the multiplication of often competing national interests ultimately lead to a wide diversity of strategies and policies across Europe. ETNC starts from the premise that the political, economic and social complexities of the EU necessitate a more layered analysis that focuses on the respective bilateral relationships between European countries and China in order to be able to then identify and evaluate broader regional or sub-regional trends and blind spots in existing research.

In particular, it is important to examine a broad range of bilateral and sub-regional relationships and avoid focusing solely on the EU's major member states. Much scholarship and expertise has already focused on EU-China relations in a broad sense, and the role of major member states in particular, but China's presence across Europe has been deepening and the time is ripe to assess this phenomenon more closely. Indeed, outside of the countries themselves, little attention has been paid to China's relations with smaller member states in the EU. In this context, full awareness of the divergences and convergences that exist among EU member states in their relations with China is a prerequisite for efficient deliberation on the EU's approach as a whole.

To help developing novel ways of thinking on how to best coordinate EU-China relations, this report provides a concise overview of many of these bilateral relationships and identifies a number of commonalities and divergences. This is only an initial assessment in what is sure to be an evolving set of analyses of both the way Europe deals with China, but also the many faces China encounters in Europe. Each country chapter in this report seeks to examine bilateral relationships with China in an effort to highlight key interests and strategies both on the part of China and its European counterparts, as well as areas of tension in these various relationships. This 'mapping' exercise is necessary for avoiding any overgeneralization on EU-China relations in future exchanges.

Most of the analyses that follow were first submitted and discussed at the inaugural meeting of the European Think-tank Network on China (ETNC) in Brussels in November 2014, and were further revised in the run up to the ETNC meeting in Madrid in April 2015. The introductory observations that follow are a result of the exchanges between the members of this group.

## **Facing new realities**

The context of EU-China relations has dramatically changed over the past five years. China's interest in Europe is undoubtedly expanding into new areas. For instance, starting with the north of the continent, the impact of retreating ice

sheets and the opening of sea-lanes and access to natural resources have bolstered China's interest in the Arctic. As such, the role of Nordic countries as key players in this geographic space, and in particular their place within the Arctic Council, has become an important element of China's diplomacy in the region. In the east of Europe, China has shown a keen interest in bolstering relations with countries of Central and Eastern Europe (CEE) through the creation of a 16+1 dialogue that seeks to create a platform for developing China's relations with the region. While the 16+1 forum is becoming an increasingly regular feature of China's relations with CEE countries, and despite competition for leadership among the CEE countries, it is China that really plays the leading role within this new framework. At the same time, in Western Europe the forum has been seen as a matter of potential concern about China's strategy to divide or even challenge the EU, as five out of the sixteen European countries involved in the discussions are currently outside of the Union. Finally, when looking at Southern Europe, China has used the window of opportunity offered by the European debt crisis to increase its investments and political profile. Today, China is becoming a palpable force across the continent and a key player in European affairs. Meanwhile, the rapid structural transformation of China's domestic economy and its growing geo-economic presence challenge Europeans to adapt their policies to new realities.

More broadly, it is the context of Europe-China relations that has changed. Despite China's current financial woes and economic slowdown, it still remains the core of a potential long-term Asian growth story. Europe, on the contrary, has been mired in a deep crisis since 2008. The relationship has become increasingly symmetric, and for some critics of the EU's foreign policy, it has even tilted to China's favour in a number of areas.

Europe is encountering a much more proactive China on the diplomatic front, both bilaterally and multilaterally. In fact, the contours of European relations with China are increasingly designed in Beijing. China's public diplomacy, particularly under Xi Jinping's leadership, has gone into overdrive, both globally and in Europe. Many of China's policy initiatives, such as the 'China Dream', the 'One Belt, One Road' (OBOR) or even the Asian Infrastructure Investment Bank (AIIB) have been the subject of intense lobbying and communication to European publics, power brokers and decision makers.

The frequency and depth of diplomatic exchanges varies across Europe but has intensified in general. With Germany, for instance, China continues to have full-fledged, regularized 'government consultations.' The UK, France and Germany now have annual high-level dialogues on economic and financial cooperation. Meanwhile, track 1.5 and more informal track-two dialogues with China have multiplied across the continent. There has been a proliferation of forums, conferences, multi-country delegation visits and informal diplomatic exchanges. CEE countries have been particularly affected by this phenomenon. Through new forums such as the 16+1 format, China bundles its foreign policy presence in a region re-defined according to Chinese interests, concentrates its public diplomacy and creates tools to identify potential avenues for cooperation and investment.

## Europe, competing with itself

Faced with a dynamic partner in China, most European capitals have struggled to adopt a coherent strategy of their own for dealing with their increasingly powerful partner, let alone a solid agenda at the European level. This is perhaps most apparent in the case of Europe's larger member states, such as Germany, France or the UK, which have been unable to formulate clear China strategies and often vie with each other for favour with Beijing. Recent examples include the lack of coordination over bids to join China's proposed AIIB, or the wrangling over the European Commission's decision to pursue China on dumping charges for solar panels. While in the former case France, Germany and Italy ultimately coordinated their bids to join the AIIB, after having been sidestepped by the UK, divisions between France and Germany among others in the solar panels case underline the fact that competing national interests undermine a common policy approach. Ultimately, intra-European competition for primacy in relations with China has cost valuable leverage at the EU level.

Rather than resulting from a deliberate Chinese strategy, intra-European competition, or lack of coordination over China usually stems from deficiencies within Europe itself. It is Europe's own malaise, coupled with China's growing economic clout that often fuels intra-European competition, or even rivalry. For instance, competing for Chinese investments has led to a phenomenon in which China finds itself presented with 28 'gateways to Europe', a sales pitch that Beijing has been keen to re-package and offer as an argument to show the special nature of its relationship with individual European partners. Moreover, the gains from China's economic growth and transformation have not been felt equally throughout Europe.

Adding to this complexity is the fact that for many countries, decentralized cooperation is an important component of relations with China. France, Germany and Poland, for instance, all have ambitions to push forward provincial or municipal-level cooperation with China. While decentralized cooperation might provide opportunities for the creation of intra-European networks of local-level partnerships, it also poses a problem for generating a cohesive strategy, first at the national level, and then at the EU level. It may also be a difficult process to push forward in the current domestic political context in China, as the Chinese leadership is currently reinforcing the power of the central government over local authorities.

Ironically, most EU member states are faced with the reality that, taken alone, they are insignificant players in China's eyes. Asymmetries in favour of China's growing economic and even diplomatic power are making many countries in Europe increasingly vulnerable to China's leverage. One well recognized aspect of this leverage is economic. Another one is more ideational. China's state-tailored fast-paced and intense lobbying and communication initiatives (in addition to its Brussels-based initiatives) overwhelm many individual EU member states. While Chinese foreign policy is becoming more transparent in its ambitions, reading between the lines of China's official and semi-official discourse remains difficult, in particular for EU countries who have only limited in-house China expertise. Today, China's diplomacy can rely on an increasingly wide network of pro-China opinion shapers to voice its positions and arguments. Europe, on the other hand, still struggles to be heard in China. As a matter of fact, in several EU member states, given the asymmetric distribution in diplomatic and research capabilities (manpower, budget, etc.), the

amount and sometimes quality of information that China has on these countries is often higher than the other way round. This does not mean that Chinese researchers and policymakers understand Europe fully. Despite China's wealth of knowledge and facts on Europe, many of the members of ETNC have noted that their Chinese counterparts often lack a real appreciation of the broader policy making context in individual countries.

Meanwhile, the isolation of European countries in dealing with China can have a considerable impact on the way they conduct their diplomacy. Although officially a core concern of the EU's dealings with China, human rights issues have proven to be an area in which member states have independent approaches, but are increasingly isolated and vulnerable to China's retaliation. In dealing with highly contentious issues such as meetings with the Dalai Lama or arms sales to Taiwan, member states rarely find support among their European counterparts, despite other states having similar practices at different times, and are generally left to bear the brunt of China's reaction. Countries such as France, which butted heads with China in 2008 when the French president met with the Dalai Lama and threatened a boycott of the Olympic Games in Beijing, have drastically altered their approach, opting to protect economic interests and to take a more indirect approach to human rights issues. Other states such as Portugal, Spain or Ireland, meanwhile, largely avoid the topic all together, fully recognizing their degree of vulnerability and lack of leverage. Countries like the Czech Republic, which has traditionally weak economic ties with Beijing and thus has historically been less conciliatory, having welcomed the Dalai Lama more than any other European country, are rather the exception.

Ultimately, all EU member states are confronted with the dilemma of either prioritizing their economic interests with China, or being critical of China's human rights record. Some also consider that they have the responsibility or duty to help China develop into a fairer and more open, perhaps even more democratic society. Many reformers, both in Poland and China, for instance, see Poland as a good example on how to transition from a communist regime to a liberal market economy and a more transparent political system. Germany has been even more ambitious. It has long believed that by trading more with China it will actively shape the country's opening up to the world, and consequently improve its human rights record. This strategy, however, is starting to be questioned, not least because the results of established human rights dialogues have been disappointing so far. A number of countries have made efforts to develop a stronger legal culture or rule of law in China. Finland, for instance, has one of the oldest judicial training programs with China, which dates back 20 years. These efforts gained some traction with the current reform plans by the Chinese government announced at the 4th plenum in 2014 to further develop its legal system (rule by law).

The long-term effects of these European initiatives cannot be properly evaluated yet. However, it is clear that the human rights agenda has largely been moved out of the spotlight in Europe-China relations and, while some high-level interaction has made a limited impact behind closed doors, it must be said that dialogue on this issue seems to be going nowhere. The softer and more conciliatory approach that Sweden, traditionally a vocal country on this topic, has taken is a good example. Indeed, the human rights topic was largely overlooked during Swedish Prime Minister Stefan Löfven's visit to China in March 2015.

## China's 'methodology for Europe'

When dealing with Europe, discerning a common approach or strategy on the part of China proves difficult. Generally, China follows more than ever a flexible approach to European markets, adjusting to the changes happening in the domestic and regional context as much as possible and trying to seize opportunities that emerge. The Ukraine crisis, for example, has encouraged China to assess the effect of sanctions for European agricultural exports and how China could benefit from it. Romania and Poland, for instance, are increasingly trying to sell their products to China, thus deepening their commercial relationships with the Middle Kingdom.

Interestingly, however, China communicates with each member state using more or less the same general methodological framework:

- There is a constant labelling and upgrading of bilateral relations: China has 'comprehensive strategic partnerships' with most (though not all) European countries. In some cases this label is combined with additional terminology: with France it is also described as 'global, close and lasting', with Germany it is 'all-dimensional' and in Italy's case it is 'stable, friendly long-term and sustainable.' Interestingly, most EU member states have become somewhat socialized to using these classifications, although the exact meaning that China attaches to them remains unclear in many cases. Recently, there has been a trend to re-specify these labels to highlight the 'special' relationship with China, as noted below in the cases of the Netherlands and Finland.
- There is also great care in Beijing to highlight the 'specific' historical and cultural ties that exist between China and the different European countries. Special emphasis is given to anniversaries of the bilateral relations. There were, for example, large-scale celebrations in 2012 for the 40th, and in 2014 for the 50th anniversary of the establishment of bilateral relations with the Netherlands and France, respectively. The Chinese diplomats are also eager to invoke the common experience of suffering from external oppression (this is done in the CEE countries), but also of having an imperial past with a rich history and a long-lasting civilization (this applies to the UK, Spain and Portugal). Even anecdotal cultural affinities like putting the surname first, as in the case of Hungary, are invoked.
- Another growing phenomenon is that many European countries are being increasingly seen by their Chinese partners as potential platforms for bolstering relations with other regions in the world, relating largely to their colonial histories or their history of engagement in fields such as development cooperation. Relations with Portugal, for instance, are sometimes framed within the context of increasing ties with Portuguese-speaking countries, while Spain is seen as a partner for further engagement with Latin America, and France for francophone Africa.

The general impression that stands out from the above points is that China is applying the same methodological framework to each member state, while at the

same time adapting the content to the local context. Indeed, China does not fully follow a common pattern in its relations with European countries. Its reactions to similar situations sometimes vary from one country to another, for instance:

- Meetings with the Dalai Lama have different repercussions. Although Beijing's position has usually been firm on Tibet and it has always reacted in a 'tough' manner following meetings by foreign leaders with the Dalai Lama (with very strong condemnation, economic sanctions, etc.), such toughness has varied from one case to the other. China has been particularly forceful in condemning Germany, France and the UK. Surprisingly, however, it never effectively 'punished' the Czech Republic and the Netherlands following repeated visits by the Dalai Lama.
- Another difference is that China has started the 16+1 sub-regional diplomatic grouping with the former socialist states of the CEE countries. But so far it has not attempted to do the same with other sub-regions such as the financially weakened southern flank of the Eurozone or the Nordic states. It remains to be seen whether this sub-regional experience is a one-off strategy or whether it will be tried somewhere else. Given the current disappointment in some CEE countries with 16+1, it is also difficult to see any other region in Europe embracing new sub-regional frameworks led by China.

To sum up, many EU member states have now a strategic partnership agreement with China, but this remains generally an empty phrase. So far it appears to be a strategy by China to show every partner that they are important and thus maintain positivity and keep hopes high on the evolution of the relationship. In our discussions we have discovered that every European country claims to be China's 'best friend', or 'best partner', or at least its 'entry door' in Europe. Hence, it seems that China has managed to create '28 different gateways to the EU.'

This shows that China gives great strategic importance to Europe and is investing considerable amounts of money and effort to establish good relations. This is no surprise. In an increasingly multipolar world where U.S. power is in relative decline, a weaker Europe is not in China's interest. One common discourse that Chinese diplomats repeat all over Europe is that China is in favour of a tripolar world order with the U.S. and the EU as the other poles. In this regard, there is no strong evidence to suggest that China has a deliberate strategy to divide Europe. To the contrary, it is intra-European competition and lack of coordination over China that makes Europe vulnerable. In other words, China does not need to divide Europe because Europe is already divided.

## **Finding common ground for Europe**

It is clear that different European countries have different priorities when it comes to dealing with China. Crucial questions such as whether China should be granted market economy status will be answered differently according to the economic profiles of the various bilateral relationships. The necessity, priority and eventual content of future investment and trade agreements with China also remain heavily contested.

Taking the example of increasingly important investment relations, new frameworks for investment cooperation and a possible bilateral agreement with China have been rapidly moving up the agenda of EU-China relations. However, national positions differ widely. The CEE countries want, above all, to attract Chinese foreign investment, particularly for infrastructure projects. The southern countries are also opening themselves to Chinese capital, but in their case the focus has been more on the energy sector so far. Among the southern countries, Portugal is the most open, having welcomed massive Chinese investment (compared to its economic size). Italy and Greece are equally open, but Spain, by contrast, has so far received only small amounts of Chinese capital for its size. Countries such as Portugal, Greece and the UK have accepted Chinese investments in fields such as telecommunications, energy and transportation infrastructure that other European countries like France or Spain would tend to consider of national strategic interest and as such act more cautiously. Meanwhile, the UK, Germany and France are keen to expand their large share of Chinese investment, but are typically even more eager to increase investment in China. Although there are major differences in approach and countries will continue to compete to attract Chinese investments, there are also common interests. Most countries are faced with the challenge of pushing for investments that are in line with their macroeconomic objectives, such as greenfield or job-creating investments. On a very general level, the lack of reciprocity in investment openness and public procurement is a shared concern. All European countries would also benefit from higher transparency in monitoring Chinese investments in Europe.

Trade relations with China also provide a highly differentiated picture, which explains why there has been little effective coordination among major trading powers in shaping the future strategic trade agenda of the EU. Bilateral trade patterns range from heavily interconnected export industries such as in Finland, France and Germany to countries like Greece with very limited exports to China. Among European member states, Germany, Belgium and Slovakia have the highest degrees of dependency on the Chinese market.<sup>1</sup> Meanwhile, other countries (such as France) have traditionally been more vocal about growing trade deficits, though these concerns have abated somewhat across Europe in recent years as exports from many EU countries to China have increased to some extent. While Europe (and the Commission) is already experienced in dealing with diverging voices in anti-dumping procedures against China, the situation might be aggravated in the future. Although overcapacity in China is bringing a flood of exports into Europe which puts pressure on all European economies, there seems to be little common ground (in addition to major legal uncertainty) on whether China should be treated as a market economy under such conditions. Topics such as market access and the question of how to handle Chinese requests to begin FTA negotiations superficially create some ad-hoc coalitions among member states. Still, it is hard to avoid the conclusion that in trade matters with China, national lobbying power and narrowly defined national interests have a negative impact on the effectiveness of European trade policy execution in the EU framework.

1 According to UN Comtrade data the ratio of exports to China relative to GDP in 2014 was highest for Germany (2.58 %), Belgium (1.87 %), Slovakia (1.82 %), Hungary (1.57 %) and Bulgaria (1.27 %).

## **Coordination: harder than ever in the present context?**

Overall, there is a need for Europe not only to acknowledge but also to act on the plurality of interests and concerns with regard to China. The financial crisis has squeezed profit and growth rates and every member state is eager to get a piece of China's wealth and market without evaluating how this affects the general European interest. However, the truth is that even larger member states such as France and the UK, but also Germany, which has the strongest trade links with China, acknowledge that alone they are no match to China's diplomatic, political and economic clout. The EU as a whole needs to find a more coherent and cohesive way to deal with China. This is, of course, easier said than done. Policymakers state the need for better coordination, but when it really counts they mostly follow national interests.

Europe is encountering a number of major cross-roads in its relations with China with much higher frequency: The 'lost opportunity' to coordinate on the AIIB, uncertainty about the 16+1, and the debate about China's market economy status in 2016 are only three examples. The EU and its member states will increasingly be confronted with a series of challenges emerging from China's rise. These challenges interact with their own internal politics, shape Europe's own integration process and determine its position in the world. The fact that China is becoming more proactive and has launched a number of initiatives and communication strategies at a faster pace, makes coordination absolutely necessary, but at the same time more difficult for EU countries. In particular, Europe today has more urgent issues to deal with (Ukraine, terrorism, Grexit, mass immigration, Euroscepticism, Brexit, reforming the Union), and therefore China-related matters tend to become secondary concerns. In the meantime, China is again becoming much more assertive and present on the global stage, as a political force, an investor, a competitor and an innovator. With its increased exposure to the outside world, however, China is also becoming more vulnerable, creating another layer of uncertainty for itself and its partners. Indeed, many of the most urgent issues facing Europe today have an impact on and are influenced by China as well.

The issues that the future discussions and collaborative research projects of the ETNC hope to flesh out are numerous and complex. In a broad sense, we will delve into China's emerging grand strategy and examine its impact on global economic and political order. Central to our project will be Europe's interaction with this emerging strategy, how Europeans are being impacted by China's emergence, and what the role of the EU and its member states could be in shaping the emerging international order as it pertains to China.

We believe that a thorough analysis of bilateral relationships with and individual foreign policies of European countries towards China is the right starting point.



## Czech-China relations: Accelerated ice melting

2

*Rudolf Fürst, Senior Researcher, Institute of International Relations, Prague*

(September 2015)

The Czech Republic's relations with China generally follow the mainstream, economy-focused approach of other European states, but high-level political ties with Beijing were relatively low profile until only two years ago. The reason for this was China's reaction to the Czech Republic's assertive human rights policy, which began after the breakup of the communist regime in 1989. Because the Czech Republic is a small country, which is not important in China's Europe strategy, and which has already hosted the Dalai Lama eleven times, it has received the kind of cold reception from China that one would expect. The Dalai Lama's visits to Prague were mostly presented as private appointments and religious meetings, typically on the platform of the annual Forum 2000 conferences sponsored by President Havel, and focused on themes of human rights and inter-cultural dialogue.

The first meeting between Havel and the Dalai Lama, who soon became personal friends, happened in the President's residence in 1990. However, the Dalai Lama's subsequent meetings with Havel, as well as with members of the Czech parliament and other politicians, were less official because of strong protests from the Chinese Embassy. Thus in 2009, when then Prime Minister Jan Fischer received the Dalai Lama in his official government residence, Prague faced the strongest Chinese criticism ever, which led to a reduction in high level contacts, and the cancellation of the Czech premier's attendance at the Shanghai Expo 2012. Further, a meeting of the Czech ambassador with the Dalai Lama in London shortly before the Olympic Games in July 2012, just two months after the Warsaw initiative – the first regional summit between China and the 16 Central and East European (CEE) states in April 2012 – revealed the influence of the 'Tibet lobby' on the Czech Republic. Meanwhile, the premier of the Tibetan government in exile, Lobsang Sangay, attended the Forum 2000 conference twice, in 2012 and 2014.

In addition, former dissidents in high political circles in the Czech Republic maintained cordial relations with Chinese dissidents such as Wang Dan, Harry Wu, Wei Jingsheng (and signatories of the Charter 2008) and invited them to Prague. Beyond these former dissidents, it has mainly been the Czech Green Party that raised the themes of Tibet and human rights abuse in China. The Greens, which became a member of the governmental coalition in 2006, initiated the establishment of a Tibet-supporting parliamentary group, and the next two Green Party leaders, Mr. Martin Bursík, the Minister of Environmental Protection, and Mr. Ondřej Liška, the Minister of Education, Youth and Sports, raised the Tibetan flag in front of their ministerial residences. The Greens also displayed the Tibetan flag inside the Parliament Hall during a Chinese delegation's visit there in 2009, and this caused the Chinese guests to leave in protest.

Czech human rights groups, which emerged since the 1990s, together with the Czech media, have made great efforts to draw public attention to the Chinese human rights record. The annual campaign 'The Flag for Tibet' has been receiving growing support from over 400 municipalities and city councils, and this was followed also by

support from universities and high schools, culture centres, galleries, museums and cafés.<sup>1</sup>

Prague's activities in support of human rights, however, have not been directly 'punished' by China due to the lack of leverage in terms of relevant investment and business projects in the country. Without these it is more difficult for China to exercise political pressure. The reason why Czech society highlights human rights and Tibet issues so much is the specific sensitivity of this small nation to political oppression and abuse of power, as it faced such problems during the era of the communist regime (the Baltic States are similar cases in this respect). Besides the Czech Republic's continuous fear of big non-democratic states, of which Russia is a typical example, there exists a demand to construct a new democratic identity for the Czech Republic through a discourse that highlights the negative otherness of 'ugly' regimes, which also includes 'communist China'.

### **Economic ties - so far insignificant yet increasingly important**

Czech (previously Czechoslovak) economic ties with China date back to the first half of the 20th century but, this tradition, which was occasionally revived in the 1950s and 1980s, has never returned to its real potential. Czech exports to China were only 1.5 percent of the country's total exports in 2013, and investment deals between the two countries since the 1990s have also been insignificant. Chinese investment flows into the Czech Republic are hardly noticeable, in contrast to the greater investments from other Asian partners like South Korea and Japan. Even though Chinese FDI to the Czech Republic grew to become the third largest among Asian countries over the last five years, recent investment flows from the PRC have been less relevant, at about USD 40 million in 2012. While Japanese FDI decreased due to the global slowdown and the re-investment of profit in companies located in the Czech Republic, the Republic of Korea, in comparison, invested USD 259.9 million in the Czech Republic in 2012 and USD 346.5 million in 2013.<sup>2</sup>

The first significant Chinese investment contract with Czech partners was signed in Beijing in 2014 between the Slovak-Czech J&T Financial Group and the privately owned Chinese CEFC, valued at USD 750 million, yet the details remain unpublished. The following year CEFC expanded its acquisitions by acquiring a 49 percent share in Travel Service, which is the biggest private Czech airliner. The investment deal, which was signed during President Zeman's visit to Beijing on 3 September 2015, marking the occasion of the 70th anniversary of the end of World War II, also included other large transactions, such as buying Lobkowicz Group (PLG) brewery, a majority stake in the Slavia football club, a minority stake in various media groups (Médea Group and Empresa Media), and also two representative historical buildings in the centre of

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1 A list of Czech municipalities that take part in the 'Flag for Tibet' campaign can be found here: <http://www.tibinfo.cz/clanek.php?id=515>

2 The PRC's FDI was USD 43.7 million, with USD 32.5 million from Hong Kong in 2012, and the corresponding figures for 2013 were USD 64.02 million and USD 11.9 million. See Czech National Bank Statistics, Foreign Direct Investment Flow into the Czech Republic, [http://www.cnb.cz/cs/statistika/platebni\\_balance\\_stat/pzi/index.html](http://www.cnb.cz/cs/statistika/platebni_balance_stat/pzi/index.html).

Prague. The total amount of this investment deal has been estimated to be CZK 10 billion (EUR 370 million).<sup>3</sup>

Czech business lobbies, which mainly include the financial investment groups PPF and J&T, and energy, machinery and automotive industries, still perceive China as one of the most important priorities for the diversification of the country's trade, as trade with China would lower the Czech Republic's dependence on the EU common market and diversify Czech trade towards the BRICS. The Czech government's strategic policy documents, such as the Export Strategy of the Czech Republic for 2012-2020, the 2012-2020 International Competitiveness Strategy for the Czech Republic, and the National Innovation Strategy, set out the country's pro-export and trade policies, and explicitly mentioned China.

### **Political ties - blowing hot and cold, and enhanced by the 16+1 forum**

The relevant mainstream political parties in the Czech Republic are in consensus on the economic importance of China, but their China policies at the governmental level fluctuate depending whether the coalition in power is on the right or the left of the political spectrum. The Social Democrat-led governments have generally supported pro-China policies, while the conservative-liberal coalitions usually have ended up in more strained relations due to their assertive criticism on human rights issues.

Besides domestic Czech politics, the establishment of the 16+1 regional format between China and the CEE states is the second strong impulse for increasing high level political ties between the two countries. However, Czech political and media debates rarely mention the broader European context of relations with the PRC, and the EU-China strategic partnership is almost ignored. The 16+1 format itself has received little public attention, as the Czech agenda with China is mainly regarded as a bilateral affair.

Mainstream discourse has become dominated by a conservative right-wing mindset that highlights security threats from the non-democratic East (i.e. Russia and China). At the same time, the new 'business first' approach of the Czech government's current China policy has been met with extraordinarily negative media feedback, and was strongly denounced also by Czech NGOs for the alleged decline of the Czech values-oriented foreign policy and Havel's humanist legacy.

The increasing Chinese interest in the CEE region provides Prague with a chance to stop being ignored by Beijing due to its previous unfriendly gestures. While Poland, the most prominent state in the Visegrad Four, is the de facto diplomatic leader of the whole group of the 16 CEE countries, the Czech Republic's economic position in the middle of Europe, and its close ties with the German economy still attract China's attention. Germany ranked as the biggest receiver of Czech exports for a long time, and the figure for Czech exports to Germany oscillates at around 30 percent of total Czech exports, while Czech exports to Germany make up 60 percent of Czech exports to the EU.

3 'CEFC continues with expansion to Czech market', Prague Monitor, 7 September 2015, <http://praguemonitor.com/2015/09/07/cefc-continues-expansion-czech-market>.

Also, the booming sales of Škoda-Volkswagen cars in China, where Škoda models have been manufactured by Shanghai Volkswagen Co. since 2006, have so far been the most successful Czech export to the PRC.<sup>4</sup>

The crisis in Czech-Chinese relations after the Czech Prime Minister Jan Fischer's 2009 meeting with the Dalai Lama was followed by a three-year 'cold period' in high level contacts that lasted until 2012, the year in which the Warsaw Initiative was declared. Later, in the 2013 Bucharest 16+1 summit, the Czech Prime Minister Jiří Rusnok declared a 'restart' in the Czech-Chinese relations, i.e. a restoration of high-level political ties. Such a shift was enabled by the preceding collapse of the Czech conservative cabinet in the summer of 2013, the shaping of a caretaker government by President Zeman's socialist protégés, and the 2014 formation of the new Social Democrat-led government. These events strengthened the pro-Chinese shift in Czech policies. In the spring of 2014, the new Czech Foreign Minister visited Beijing 15 years after the last visit by a Czech Foreign Minister to China, and President Zeman arrived in Beijing a few months later in October 2014. Before Zeman's visit, the last Czech presidential visit to China was in 2004. The Czech-Chinese Investment Forum, which was held in Prague in 2013 and 2014 plays an important role in the new Czech-Chinese rapprochement. Both forums were hosted by President Zeman, and the first forum was attended by the Chinese Chairman of the Secretariat for the 16+1 Agenda, while the second was attended by the Chinese Vice-Premier Zhang Gaoli.

In conclusion, human rights issues and the contemporary discontinuity in the high-level dialogue are seemingly disassociated from the expansion of concrete ties. Yet, Czech-Chinese relations also have a brighter side. During the period of cold high-level political ties, the bilateral ministerial and regional level agenda in relation to China developed significantly. Region-to-region contacts were obviously vitalized during the visit of the Czech delegation of regional representatives to Beijing, Shanghai and Guangzhou in 2012, and also by the visit of Kamil Jankovský, the Czech Minister of Regional Development, to Beijing and Shanghai in the same year.

The Czech state's support for trade, investment and tourism in China led to a comparatively advanced regional expansion (CzechTrade representative offices were opened in Beijing, Shanghai, and Chengdu), and the cultural and academic relations between the two countries also grew without being politicized. The boom in Chinese tourism in Europe spilled over to Prague, as the number of tourists from the PRC reached 14 percent of the total number of foreign tourists in the Czech Republic.<sup>5</sup> Further increases in the number of Chinese tourists are expected, especially after the release of the Chinese-Czech co-produced blockbuster romance film *Somewhere Only We Know*,<sup>6</sup> which highlights the glamour of Prague and was introduced to Chinese cinemas during the 2015 New Year Spring Festival. Travel opportunities between

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4 1.13 million Škoda cars have already been sold in China; see 'Škoda auto představila v Číně nový model vozů Octavia a Yeti' (Škoda Auto introduced new models of Octavia and Yeti in China), *Lidovky.cz*, 20 April, 2014, [http://byznys.lidovky.cz/skoda-auto-predstavila-v-cine-novy-model-vozu-octavia-a-yeti-pl4-/doprava.aspx?c=A140420\\_160256\\_in-doprava\\_ele](http://byznys.lidovky.cz/skoda-auto-predstavila-v-cine-novy-model-vozu-octavia-a-yeti-pl4-/doprava.aspx?c=A140420_160256_in-doprava_ele).

5 *Zpravy.E15.cz*, 'Činští turisté lámou rekordy' (Chinese tourists are breaking records), <http://zpravy.e15.cz/byznys/obchod-a-sluzby/cinsti-turiste-lamou-rekordy-v-cizine-loni-utrtili-165-miliard-dolaru-1160421>.

6 有一个地方只有我们知道, 2015, [http://v.youku.com/v\\_show/id\\_XODM2NDIxOTEy.html](http://v.youku.com/v_show/id_XODM2NDIxOTEy.html).

the two countries also received substantial impetus with the establishment of direct flight connections in September 2015.<sup>7</sup>

Also, the Czech experience with China reveals a minimal correlation between export growth and human rights policy. During the coldest interlude in political relations, after the Dalai Lama met with the Czech Prime Minister in Prague in 2009, Czech exports to the PRC boomed – increasing by 43 percent in 2010, and by 33 percent in 2011. The positive development of economic relations despite an assertive Tibet policy is contrary to expectations. Another paradox is that the current improvement in the relations with China, which are now the best they have ever been over the last two decades, has met with the most negative media coverage. Media reports condemn Czech politicians for allegedly betraying value-related policies in exchange for material profit, and point to the alleged national humiliation that is caused by the Czech Republic's submissive behaviour towards the communist regime in Beijing. Thus the growing political consensus in the Czech Republic about the rising relevance of the PRC lacks the support of the mainstream media.

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7 'Prague to have new direct regular connection with China, as of this September a direct flight route will begin operating from Prague to Beijing', Prague Airport, 9 July 2015, <http://www.prg.aero/en/prague-airport/press-center/press-releases/prague-to-have-new-direct-regular-connection-with-china-as-of-this-september-a-direct-flight-route-will-begin-operating-from-prague-to-beijing/>.

### 3 Finland-China relations: Pragmatic cooperation since 1950

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(April 2015)

#### Historical overview

The year 2015 marks the 65th anniversary of the diplomatic relations between Finland and the People's Republic of China. Already during the republican era, Finland established diplomatic relations with China in 1923, and had a consulate in Shanghai from 1925-1944. Since 1950, bilateral relations between Finland and China have remained stable. Finland opened an embassy – with a commercial section – in Beijing in 1952. In 1953, Finland was the first European country to sign a trade agreement with China. During the Cultural Revolution, bilateral contacts were scarce, but Finland was among the few countries which never cut or froze diplomatic relations with China. The first Finnish-Chinese Joint Venture, a paper machine factory, started in 1989 in Xi'an. That same year, Finland was the first Western country to resume ministerial level visits to China after the Tian'anmen Square protests; the visit of the Minister of Foreign Trade was said to be focused solely on trade. The first state visit from Finland to China took place in 1988, and from China to Finland in 1995. Since the 1990s, Finland's commercial presence in China has steadily grown. Nokia, Kone, and Rovio, to name just a few major Finnish companies, have been well-known success stories in China. Finnair started regular traffic to Beijing in 1988, and currently flies to five destinations in China (including Hong Kong).

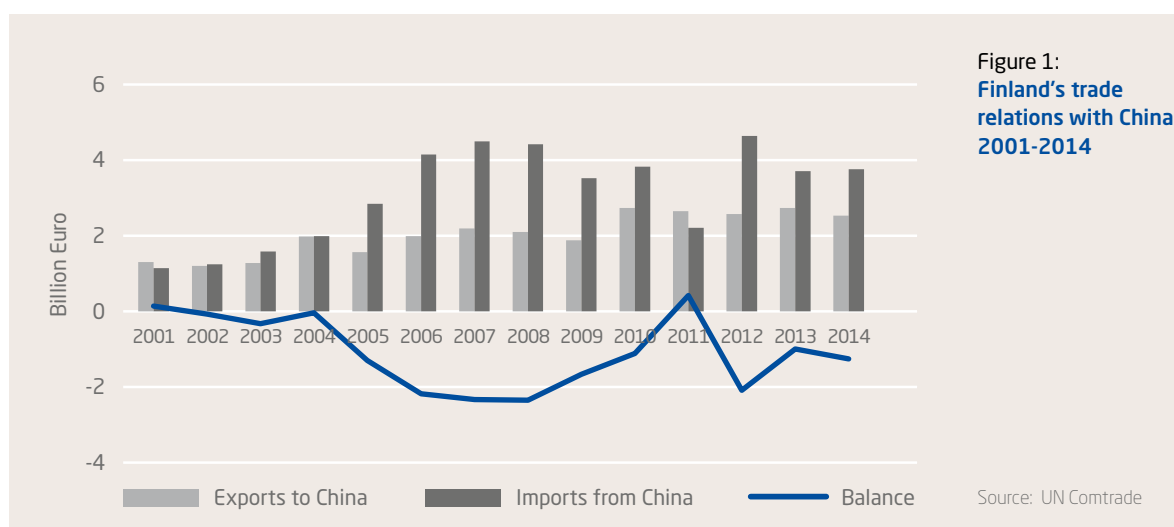
Currently, bilateral relations can be described as stable and generally unproblematic. There are no major issues posing risks to the smooth development of relations in the immediate future. Bilateral relations are primarily driven by commercial interests from Finland's side. In addition, it is as important for Finland as for any other developed nation to maintain close contacts with the leadership of a global power. For China, Finland is one of the smaller and less important partners among the EU Member States. Finland is probably also seen as a relatively harmless partner by China. Although high-level Finnish visitors to China have systematically taken up controversial issues, such as human rights, Finland has usually restrained from open, public critique on a political level.

#### Flourishing trade, disappointing flow of investments to Finland

The total trade volume in 2013 was EUR 6.4 billion of which EUR 3.7 billion consisted of imports to Finland. Imports were 20 percent lower than in 2012 while exports were 6 percent higher. Both the import and export figures have fluctuated quite heavily over the years (see Figure 1). Since 2010, China accounts for approximately 5 percent of Finnish exports and 6–8 percent of the imports. That makes China the seventh largest

export market and the fifth largest importer for Finland (January to July 2014, according to the statistics of Finnish Customs, Tulli). According to the Ministry for Foreign Affairs of Finland data for 2012,<sup>1</sup> Finland has the highest trade volume with China among the EU Member States in relative terms, compared to the size of its national economy.

According to the statistics of Tulli, exports have remained relatively stable at EUR 200-250 million a month through 2013-14. Imports have fluctuated more, and have been between EUR 250 and 400 million a month on average. The five largest categories of goods that Finland exports to China are engines, motors and special machinery (24 percent), electrical machinery and appliances (17 percent), papermaking pulp (17 percent), furs (9 percent), and other goods (8 percent). The five largest import categories are other goods (21 percent), clothes (14 percent), telephone, radio and TV equipment (14 percent), other electrical machines and appliances (13 percent), and office and data processing equipment (13 percent).



The Finnish minister responsible for foreign trade visited China in January 2015, and discussed exports of Finnish foodstuffs to China. Finnish companies have been looking for new markets after exports to Russia have diminished, and some initial progress has been made.

There are some 350 Finnish companies operating in China, providing employment for some 60,000 people. The total sum of Finnish investments to China is estimated at over EUR 10 billion.<sup>2</sup> The amount of Chinese investment in Finland is negligible in comparison, estimated to total some EUR 200 million. One of the earliest and biggest investors is Huawei which set up a research and development centre in Finland in 2012. The Finnish government is actively promoting investments from China, in particular in innovation and high-tech sectors, as well as tourism and travel. FDI from China in 2013 showed a marked increase, from EUR 39 million in 2012 to

1 'Maatiedosto Kiina: Kahdenväliset suhteet', <http://formin.finland.fi/Public/default.aspx?nodeid=17999&contentlan=1&culture=fi-FI>.

2 Confederation of Finnish Industries, <http://ek.fi/mita-teemme/kauppapolitiikka/kiina/>.

EUR 93 million. In comparison, investments from Japan in 2013 totalled EUR 1,384 million, according to the Bank of Finland.<sup>3</sup>

### **Towards a practice-oriented partnership**

Political relations have remained at a high and active level. Both the President and Prime Minister of Finland visited China in 2013. The President was accompanied by a business delegation. Member of Chinese Communist Party Politburo Standing Committee, Liu Yunshan, visited Finland in 2014. This visit focused on cultural cooperation, which has been growing. China was chosen as the theme country for the Helsinki Festival in August 2015.

The directions for the development of Finland's relations with China are laid down in the Finland-China Action Plan (2010), produced by the MFA. The document stresses commercial and economic interests as the core of practical cooperation between Finland and China, but points out also the importance of good political relations, as well.

The Action Plan lists a wide range of goals in various sectors, including political issues; commercial issues; issues related to energy, the environment, and climate; cooperation in education, research, and innovation; cultural cooperation; development cooperation; and cooperation between law enforcement and border authorities. The Action Plan fails to set any clear priorities among the listed goals.

The Action Plan has not been updated, but a new list of goals and priorities is expected to appear in the document laying out the principles for a partnership under preparation in national bureaucracies in Finland and China, respectively. The partnership was discussed by the presidents of Finland and China in 2013. The partnership would be aimed at promoting pragmatic and future-oriented cooperation in relevant areas of mutual interest. The partnership is not expected to follow the model of any partnerships which China currently has, so it will most likely not be called Comprehensive Strategic Partnership or Strategic Partnership. Instead, it will be more practice-oriented. In China, the partnership under preparation has been unofficially dubbed 'a new type of partnership.' There is currently no estimate as to when the negotiations and preparations will be concluded. Naturally, this bilateral partnership would be complementary to the EU-China Strategic Partnership.

One practical measure which has been advanced by the Action Plan, as well as the MFA's general strategy, is the approach to provide services to all Finnish actors in a coordinated manner through a single gateway, entitled Team Finland. The approach has been received positively by the Finnish business sector, and it is hoped that a closer cohesion between the businesses and different governmental actors will enhance Finland's visibility in China and make Finland more competitive.

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3 'Foreign Direct Investment in Finland, Stock by country', [http://www.suomenpankki.fi/en/tilastot/maksutase/pages/tilastot\\_maksutase\\_ja\\_suorat\\_sijoitukset\\_maksutase\\_suorat\\_sijoitukset\\_suomeen\\_kanta\\_maittain\\_en.aspx](http://www.suomenpankki.fi/en/tilastot/maksutase/pages/tilastot_maksutase_ja_suorat_sijoitukset_maksutase_suorat_sijoitukset_suomeen_kanta_maittain_en.aspx).



From the perspective of Finland, the most interesting areas of practical cooperation with China include clean-tech, energy and environment; urbanization; ICT; forestry; education and innovation; Arctic cooperation; and judicial cooperation. The last of these already has a long history, and Finnish experts in legal matters, such as judges, attorneys, prosecutors, and prison administrators, have since 1995 been providing their Chinese counterparts with advice and training and sharing best practices. The year 2015 thus marks the 20th anniversary of the judicial cooperation between Finland and China. This cooperation, which is aimed at promoting good governance, rule of law, and respect for human rights in a practical, non-adversarial manner, is often hailed as the one of the more successful and unique elements of Finland's relations with China.

Chinese ministries such as the Ministry of Science and Technology have set their own major foci regarding relations with Finland, which include nanotechnology, environmental technologies, and the Arctic issues. It is noteworthy that Finland has systematically voiced support for China's observer status in the Arctic Council, stating as its principal position that all those who are ready to commit to promoting the goals of the Arctic Council through practical cooperation should be entitled the position of an observer.

The most immediate concerns for Finland in relation to China are IPR breaches and industrial espionage. The former are regularly discussed at joint committee meetings between the Finnish MFA and China's Ministry of Commerce, as well as through the EU channels. Industrial espionage is likely to be a growing headache for the Finnish Security Intelligence Service.

## **People love the panda**

People-to-people contacts between Finland and China are rising. The number of Chinese tourists is rising by an average of 4 percent annually, but the Chinese account for only 2 percent of all tourists coming to Finland. Chinese tourists are very welcome, because on average they spend more money per visit than other nationalities.<sup>4</sup> More efforts to provide service for the Chinese in their own language are wanted, however. Promoting Chinese language studies in Finland was already deemed important decades ago, but so far the practical measures to improve the situation on the part of the Finnish government have been modest. In contrast, there are over 2,000 Chinese degree students in Finnish universities, second only to Russian students in numbers. The Chinese make up almost 10 percent of all foreign degree students. Before 2012, China ranked number one in the countries of origin of foreign students.<sup>5</sup> One reason for Finland's rising popularity was probably Nokia's success in China, and a large number, if not the majority, of Chinese students are studying technology-related subjects.

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4 Visit Finland, <http://www.visitfinland.fi/wp-content/uploads/2013/03/Matkailun-luvut-infograafi-2015-fin.jpg>.

5 Centre for International Mobility, [http://www.cimo.fi/nakokulmia/tietoa\\_ja\\_tilastoja/opiskelijoiden\\_ja\\_oppilaitosten\\_kv-liikkuvuus/opiskelijoiden\\_liikkuvuus](http://www.cimo.fi/nakokulmia/tietoa_ja_tilastoja/opiskelijoiden_ja_oppilaitosten_kv-liikkuvuus/opiskelijoiden_liikkuvuus).

Among the general public, the views regarding cooperation with China are somewhat split. On the one hand, there is the long-standing concern that all manufacturing jobs will disappear into China, and a newer one which is manifested in suspicions that the Chinese will buy the best Finnish businesses. In a larger perspective, the first type of concern has proven to be mostly unfounded, and the second one does not look like becoming a reality, due to the lack of interest among Chinese investors. On the other hand, there is the view – which is also shared on the official level – that Finland should deepen economic cooperation with China as it is currently the strongest driving force of economic growth. There are also voices from the business and political elite that call for Finland to learn from Chinese government efficacy, while many civil society activists regard China with suspicion due to its human rights situation. It is, nevertheless, probably fair to say that by and large the popular image of China resembles that of a panda more than a dragon.

## France and China: A not so 'special' relationship

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(April 2015)

After a series of ups and downs in China-France relations during the Nicolas Sarkozy era (2007-2012), the first years of the François Hollande administration have been characterized by attempts to stabilize relations, with economic cooperation remaining the dominant feature. Still, the reinforcement of a pragmatic approach to China does not necessarily indicate a shift in the content of France's China or Asia policy. Human rights remain a concern of French diplomacy, and Paris also pursues a more engaged diversification of its ties with China's neighbours. Still, China remains at the core of France's Asia policy as new avenues for economic cooperation open and potential avenues for security cooperation emerge, particularly in the Middle East and Africa.

### Rebalancing economic relations

Officially, Franco-Chinese relations over much of the last two decades have been governed by a 'Comprehensive Partnership' established under the Jacques Chirac administration in 1997 that has sought to maintain stable political and economic relationships between the two countries. Economic issues have dominated the relationship in recent years, with a growing imbalance in favour of China, though the trade deficit has remained relatively stable at around EUR 26 billion for the last four years.



While the value of direct imports from China are often over-represented, as global value chains serve to distribute the value-added of manufactured goods across a wide range of countries, France's trade deficit with its Asian partner has been a particular point of concern in Paris at the political level. During President Xi Jinping's official visit to France in March 2013, the two countries agreed to a framework for

reinforced political dialogue and people-to-people exchanges, but vowed also to work towards a rebalancing of economic relations ‘within the spirit of reciprocity’.

In a broad sense, France’s approach to China can be loosely characterized as more transactional than strategic. High-level political encounters are often used to pave the way for large-scale commercial contracts. Indeed, pragmatism and the pursuit of economic interests have been the driving force in the relationship, notably since 2009. This was laid bare by efforts early in the Nicolas Sarkozy administration to take a tougher stance on China and human rights – through, for example, an unofficial meeting with the Dalai Lama and threats to boycott the opening ceremony of the 2008 Summer Olympics in Beijing. The strong reaction of the Chinese government and the fallout of this stance on French economic interests became quickly apparent, and France progressively returned to a more pragmatic approach. Nonetheless, France did not give up discussions on contentious issues such as human rights, but its approach has evolved, becoming more discrete in official public communication. The tenuous state of the French economy following the 2008-2009 downturn has highlighted the need to maintain this approach, as economic opportunities with China are often billed as a welcome source of growth for France.

### **Selling France and competing with other European powers**

In recent years France has worked hard to promote Chinese direct investment, with a more recent effort on investments that could be considered ‘job creating’. Yet, despite a number of notably large deals (most recently with Huawei, which plans to invest EUR 1.5 billion in France by 2017), the level of Chinese investment in France remains unsatisfactory in terms of investment to GDP ratio, for instance, and given the traditional level of France’s attractiveness to foreign investment in general. By the end of 2013 the stock of Chinese FDI in France was only EUR 4.3 billion (of which EUR 1.6 billion was registered from Hong Kong), or 0.9 percent of total FDI stock in France.<sup>1</sup> In its effort to improve its economic attractiveness, France has (willingly or unwillingly) found itself engaging in a competition with other European economies, such as the UK and Germany, over Chinese investment.

European actors also compete over their presence in the Chinese market, where European companies are reinforcing investments to gain market share (in the automotive sector for instance). Several key industries such as nuclear energy, aeronautics, transportation and the automotive sector have been a traditional focus of bilateral economic cooperation between France and China. More recently, sectors such as food and agribusiness, healthcare, green industries (in particular ‘green urban development’), tourism and new technologies have gained importance in the eyes of the French government. By the end of 2013, French FDI stock on China stood at EUR 17.9 billion.<sup>2</sup> French authorities believe that the country should play on its comparative advantages in these fields, as fast-paced modernization of the agriculture sector, urbanization and deep concerns for food safety and pollution

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1 ‘Les investissements chinois en France en 2014,’ French Ministry of Economy, Direction générale du Trésor, [http://www.tresor.economie.gouv.fr/11675\\_Les-investissements-chinois-en-france-en-2014](http://www.tresor.economie.gouv.fr/11675_Les-investissements-chinois-en-france-en-2014).

2 ‘Les investissements français en Chine en 2014,’ French Ministry of Economy, Direction générale du Trésor, [http://www.tresor.economie.gouv.fr/11674\\_Les-investissements-francais-en-chine-en-2014](http://www.tresor.economie.gouv.fr/11674_Les-investissements-francais-en-chine-en-2014).

reduction become more prevalent in China. In particular, it is hoped that cooperation in these sectors will develop not only between major companies, but also among small and medium size enterprises from both countries.

Under the Hollande administration, and in particular at the initiative of Foreign Minister Laurent Fabius, France is pushing forward with an approach of 'decentralized cooperation' in an effort to reinforce ties at provincial/regional and municipal levels. This approach has generally been welcomed in China, as Chinese authorities also hope that cooperation will take place not only in Beijing or Shanghai but also in less developed parts of the country (i.e. Western and Central provinces, second and third tier cities and rural areas). The current political climate in China has complicated these partnership initiatives, however. A clear consolidation of power under Xi Jinping and the central government has undercut the authority and initiative of local governments. In particular, a vigorous anti-corruption campaign that has instilled a prevailing sense of fear among government and party cadres has resulted in political paralysis at the local level, which ultimately hampers French efforts to develop local diplomacy initiatives with Chinese partners.

Yet in the economic arena, a number of sticking points remain for France. Among these is the dubious relationship between Chinese state intervention, unfair competition and the role of state owned enterprises in strategic sectors. Another point often highlighted in Paris is what French officials consider to be the undervaluation of China's currency. Indeed, France tends to give more weight to the currency issue than other European counterparts.

### **France between a middle and global power, and its impact on Franco-Chinese relations**

France's role on the global stage has increasingly shifted from one of an established power to that of a more moderate, middle power. It nevertheless seeks to utilize the levers of influence still at its disposal in an effort to elevate its importance, including in relation to China. Within the context of Europe, France must find ways to demonstrate its importance in relation to more economically dynamic states such as Germany. For instance, France still vaunts a permanent, veto-bearing seat on the UN Security Council, plays proactive roles as a G7 and G20 member and takes a proportionally high level of engagement in global affairs from climate change to international security. With the UK, it is one of the only European powers that maintains an operational level of military power projection, and as such has been active in responding to crises in Libya, Mali, the Central African Republic, or against the Islamic State. As China's interests become increasingly global, these are arenas in which France can find leverage in dealing with an increasingly influential China and are also reasons why China still considers that its relations with France are of a relatively high degree of importance. France's presence and historical experience in African affairs, for instance, make for valuable lessons that its Chinese counterparts seem interested in learning from (though this can also be considered as a source of tension in Paris, where China's increasing influence in Africa is a source of discussion and concern).

For decades, and in particular throughout the year 2014 on the occasion of the 50th anniversary of the establishment of diplomatic relations, China has also sought to focus on France's tradition of maintaining an 'independent' foreign policy (i.e. independent from the U.S.). It highlights what is often billed as a 'special relationship' (Charles de Gaulle having established official diplomatic ties with the PRC in 1964, well ahead of many western counterparts) in order to support its officially-stated preference for a 'multipolar world order'.

## **A diversification of French engagement within Asia**

Since 2012, under the presidency of François Hollande, there has been a growing recognition and questioning of France's Sino-centric (and to a lesser-extent Indo-centric) view of and approach to Asia. While China will certainly remain a key, if not the central focus of French economic engagement with Asia, efforts have been recently made to more geographically diversify French engagement with the region on the economic, political and security levels. France has been engaging in closer bilateral ties with India, Japan, South Korea, Indonesia, Singapore, Vietnam and Australia. A flow of high-level visits by French officials to Asia have become the new normal. As an illustration, in January 2014 France entered into a strategic '2+2' dialogue of foreign and defence ministers with Japan and in mid-November François Hollande became the first French President to visit Australia, as ties with this country deepen on both the strategic and economic level. France is also exploring niche markets and investment in 'second tier' countries like the Philippines and Laos, both of which Hollande visited in 2015 and 2012 respectively.

The underlying reasons for France's diversification strategy can be debated, but French engagement in security and defence matters in Asia is slated to rise. In June 2013, French Defense Minister Yves Le Drian expressed at the annual Shangri-La Dialogue in Singapore that France would intensify its politico-military links in the Asia-Pacific and remain resolutely engaged in ensuring the stability of the region, despite rising budgetary constraints. France's deepening strategic linkages in sectors such as defence and with states currently in contention with China (such as Japan) or more broadly allied with or courted by the U.S. (such as Australia or India) have surely not gone unnoticed in Beijing. These strengthening strategic ties in the region have not directly impacted the Franco-Chinese relationship as of yet, but nevertheless serve as a reminder of France's strong ties with China's strategic rival: the United States. It also puts into perspective the assumption that China and France are special partners in favour of a multilateral order. France's ability to remain an engaged partner with all parties in Asia will ultimately depend on the evolving geopolitical climate and the state of regional security.

## **Growing avenues of dialogue and cooperation**

### ***Common security concerns***

Although China and France have limited security ties, several security-related issues are of common concern for both countries. China supports the French intervention in Mali, remains worried about the security situation of several countries on the African continent, and Chinese companies and diplomats are eager to learn

more from the French experience regarding protection of investments and citizens as a result.

Combating terrorism has recently become another potential area for dialogue and experience sharing, although practical cooperation in the field may remain limited given the state of security ties between the two countries and divergence of views on the situation in Xinjiang and the nature of the terrorist threat facing both countries. Given a spate of terrorist attacks across China, the rise of ISIS, and the NATO withdrawal from Afghanistan, China's diplomacy has expressed interest in learning from and further collaborating with France regarding measures to combat terrorism.

### ***2015: climate change at the core of bilateral relations***

Climate change issues will meanwhile dominate the short-term agenda of bilateral relations. The calendar is pressing, as France will host the UN Conference of Parties (COP21) on climate change in December 2015, for which it has raised high expectations. The goal for Paris is to achieve a broad-reaching post-2020 agreement. China announced a new set of objectives in an agreement with the United States in November 2014, and there is hope that China will show deeper commitments on this issue at the multilateral level (as the latter was considered in part responsible for the failure of the Copenhagen summit). While this remains highly uncertain, partly given that China still positions itself as a 'developing country', it is nevertheless a central issue in the bilateral relationship in 2015.

## 5 Germany's China policy: No honeymoon forever

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(April 2015)

### **From economic symbiosis to strategic dialogue**

From the 1970s, some foreign policy strategists in the Federal Republic of Germany saw China as a balancing agent against the Soviet Union. Since the breakup of the USSR and until today, economic relations have been the main driver of bilateral relations, though strategic dialogue beyond economic cooperation increasingly plays a greater role in German-Chinese relations. The balance between a focus on bilateral relations and a coordinated EU policy on China is still contested.

The Sino-German relationship today is officially labelled as a 'strategic partnership', buttressed by regular government consultations, annual visits of German Chancellors (since Gerhard Schröder and continued under Angela Merkel) and over 70 dialogue mechanisms. The terminology has evolved over time. Schröder and Prime Minister Wen had labelled German-Chinese relations as a 'strategic partnership in global responsibility' in May 2004. Officially, relations were declared a 'strategic partnership' in 2010 and upgraded to a 'comprehensive strategic partnership' during Xi Jinping's state visit to Germany in early 2014. Chinese official media attest that bilateral relations are 'at their best in history.'

Notwithstanding relatively serious hiccups (from September 2007 until June 2008, following a 'private' visit of the Dalai Lama at the German Chancellery) relations between Hu/Wen, as well as Xi/Li and the Merkel government seem to have been going through a 'golden period' that has been more or less 'without frictions.' However, these 'hiccups' have reminded the German side that what they consider a privileged partnership is endangered when core Chinese interests are affected. More recently and forcefully the challenges of German companies to compete in the Chinese market are becoming major concerns for German policy making.

Diplomatic disgruntlement because of the Dalai Lama affair ended in 2010 when both sides agreed to hold annual government consultations chaired by the Chancellor/Premier and involving a large number of cabinet members from both sides. These government consultations were held for the first time in 2011 with the conclusion of 22 bilateral agreements. The first two government consultations focused on the 'Energy-Environment-Climate' triangle as priority issues, while the latest October 2014 round of consultations resulted in a comprehensive 110-point framework agreement aimed at establishing an 'innovation partnership'.

### **Continuity and institutionalization of relations**

Overall, there is a high degree of continuity in German-Chinese relations. What German observers often describe as being different from other European countries' relations with China is that, in the case of Germany, many of the cooperative



arrangements exhibit an unusual degree of institutionalization and have a notably long-term outlook. They build on a set of mechanisms that allow German foreign policy to follow up on tasks, but also on personal relations beyond changing governments and legislatures.

Strengthening relations with China was already the main goal of the 'Asia concept' of Kohl's government in 1993. In May 2002 the German foreign office published a new 'regional concept' for East Asia in which fundamental interests and priorities of German foreign policy towards China were clarified: 'Integration of a China that is rapidly gaining political and economic significance into the 'community of nations''. Today, beyond trade and investment relations, environmental cooperation, projects in the cultural and scientific sector and frequent high-ranking diplomatic exchanges or state visits are the corner stones of bilateral relations. 'Departmental/portfolio regional concepts' (by several federal ministries) further concretize measures and activities of Germany's China policy.

Today, the three core goals of Germany's China policy can be still described as:

- 1) foster a step-wise liberalization of China
- 2) incorporation of China into the established systems of rules and international order
- 3) In conflict cases, the overarching goal of German foreign policy will nearly always be: securing German economic interests as a global trading power that is intensively linked to the Chinese market.

The Chinese side, too, values the partnership with the German government and considers Germany as the core counterpart in, or 'a gateway' to Europe (going back to the 1990s). Beyond the obvious thriving economic relations, two aspects of the relationship are important for China. In one respect, Germany is considered as a relatively down-to-earth, China-friendly player with a potentially more independent and leading voice not only in Europe. As such, it is a harmless but crucial partner in global and European affairs. Secondly, in some fields, 'German approaches' are also an important source for inspiration and exchange (among many others) in China's intense quest for reform solutions (industrial organization, social security, financial markets, vocational training, etc.).

## **A strong foundation of bilateral consultation and dialogue**

Underneath the high-level government consultations, German-Chinese cooperation has a strong foundation of bilateral and semi-official consultation and dialogue structures. The three main pillars are political dialogue (including rule of law, and human rights dialogue), economic cooperation and cultural/civil society/scientific exchanges. For instance, in 1999/2000, Schröder and Premier Zhu Rongji established a bilateral dialogue on the rule of law ('Rechtsstaatsdialog') among high-ranking Chinese and German politicians, officials and scientists with the goal of contributing to the modernisation of the judicial system and improving the human rights situation in China. The dialogue has held 14 official symposia and is based on jointly formulated two-year programs. With its technical focus, most officials still consider this dialogue as successful (despite difficulties). As a relatively special type of civil-society dialogue, the German-Chinese Dialogue Forum was established

in 2005 and brings together participants from a range of backgrounds (politics, economics, science, culture) to 'consult' the German and Chinese Presidents.

While dialogues of the foreign and defence ministers have existed for years, strategic dialogue on global and regional affairs has gathered pace during the last two years with frequent exchanges on China-EU relations, the Ukraine, East Asian Security, Iran, etc. Recently agreed elements of cooperation include an annual 'strategic foreign and security policy dialogue' (2015), a high-level 'financial dialogue' (2015), a 'cyber dialogue' (second round in 2015), but also a 'German-Chinese Business Advisory Council' (July 2014) and several other initiatives covering innovation, education, etc.

### **German business interests drive foreign policy**

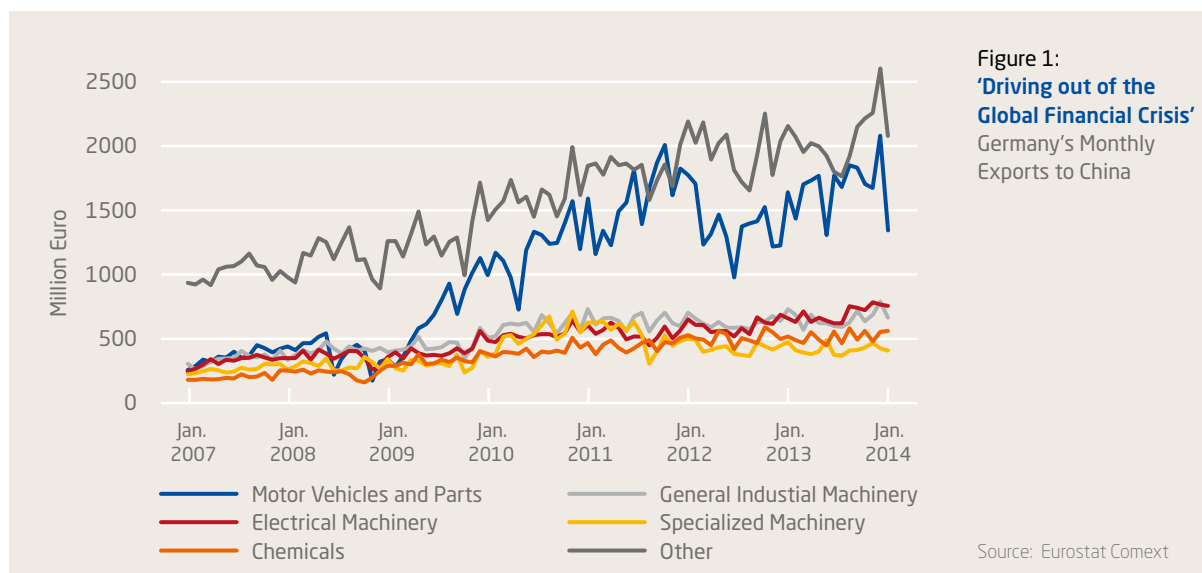
The core interest of German governments' in engaging China is without any doubt the promotion of German exports and securing the presence of German companies in China. Visits by the German Chancellor and ministers in China are always accompanied by large business delegations. In July 2014, Merkel and Premier Li chaired the inaugural meeting of the new 'German-Chinese Business Advisory Council' that discussed market access, innovation cooperation, RMB internationalization and the expansion of German business presence in China. Not only in this forum, federations and their committees, such as the APA (Asia Pacific Committee of the German Business, which is a joint initiative of the BDI, DIHK, OAV and the Banking association), play a key role in maintaining and pushing German-Chinese (economic) relations. The chair of APA is always a prominent CEO of a leading German company. Together with the German and European Chambers of Commerce, these are key representatives of European and German (business) interests and often in very close contact with high-ranking state institutions and party officials in China.

The overarching importance for German foreign policy of so far very complementary economic relations with China is obvious to all observers (others have used the labels 'special relationship' or 'symbiosis'): While overall trade growth is slowing significantly, Germany is China's largest trading partner in Europe, and China is Germany's top partner outside the EU. In 2014, the bilateral trade volume was more than EUR 150 billion with a German trade deficit of roughly EUR 5 billion, making China Germany's third largest trade partner and second largest import partner. From 2013-2014 German exports to China, which make for roughly half of European exports, increased more than 11 percent, making China the fourth ranked destination of German exports (6.6 percent of total exports). In 2014, Germany primarily imported electronics and textiles from China and exported cars, machinery and chemical products. For goods like automotive parts, machinery and electronics, China is the most important export destination.

German FDI stock in China is reaching EUR 40 billion with over 5000 companies in China, with BASF and VW and the like counting among the largest investors there. Chinese FDI stock in Germany is more than EUR 6.9 billion. Between 2000 and 2014 most investments in value terms went to Bavaria, Hesse and North Rhine-Westphalia. With half of German GDP coming from exports over the last decade, and as one of the main stabilizers of German economic growth during the crisis years

(Figure 2), the importance of the German car industry's exports to and their business in China cannot be underestimated (for instance China contributed to more than half of BMWs and VWs net profit in 2014; all major car companies have joint ventures in China; production of German-model cars in China is much higher than in Germany).

Exports of sophisticated machinery, cars and chemicals will also be important for future relations, but in line with China's economic restructuring the German business community will need to seek new opportunities in environmental, health and medical technology, sustainable energy and transportation (in particular e-mobility) and 'Industry 4.0.' Among the officially agreed goals for strengthening bilateral relations are an expansion of trade in services and mutual investment.



## New, emerging challenges

While top-level German foreign policy towards China seems to have settled into a routine in the medium term, new realities are already very palpable. Some even speak of 'fundamental changes in the coordinate system of German China policy.'<sup>1</sup> This primarily stems from the fact that all three core goals of this policy are already being challenged. Germany's China policy will obviously need to change with economic fundamentals change: increased competition from Chinese companies (in China and globally), unhealthy dependence on the Chinese market, potential for technology drainage, but also the perception of unbalanced openness to Chinese investment might provide new sources of friction. Here, the EU-China Comprehensive Agreement on Investment (if it improves on existing agreements) could be an important instrument for Germany to push for constant improvements in the fields of market access, reciprocity, equal treatment of foreign companies, protection of intellectual property rights, etc. At the same time, neither the economic-technological development of China nor the intensive transnational and bilateral exchanges with the West have fostered domestic liberalization to the expected degree. Overall, German policy-making circles witness a hardening of China's foreign policy stance and a period of recalibration of China's long-established cooperation patterns with external partners. In a practical sense, while hailed as a diplomatic success, follow-

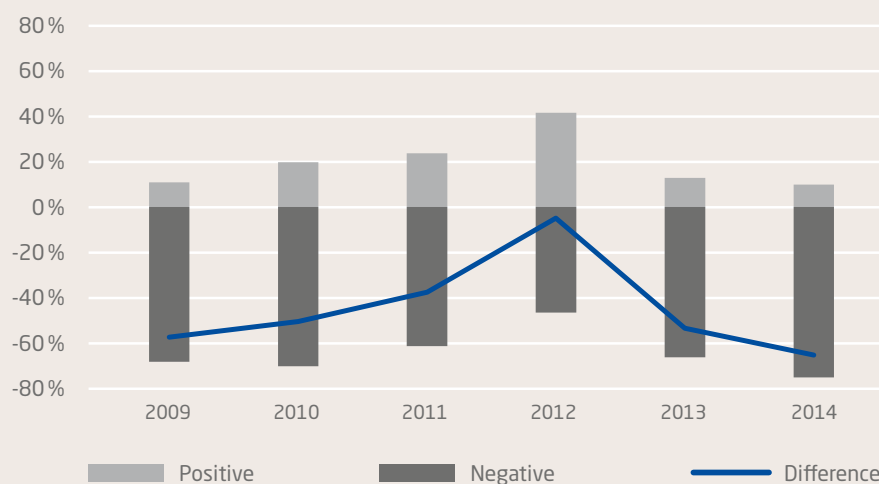
1 Sebastian Heilmann (2014) 'Niche Diplomacy at Work,' Internationale Politik 12/2014.

up on the recent '110 points program' is questionable. With regards to cooperation on the envisioned 'Industry 4.0/Innovation', reaction from German business has also been rather mixed so far, not least due to obvious concerns about increasing competition in modern industrial development.

This coincides with a changing geopolitical and geo-economic environment and China's attempts to create governance alternatives and to reshape existing patterns of interaction. Here, Germany's position is so far still relatively open to Chinese initiatives, 'as long as they stick to international law'. While there is a broader debate in policy-making and -preparation circles about how to deal with China's 'shadow foreign policy'<sup>2</sup> (establishing new parallel structures to the existing system), the German bid to also join the Asian Infrastructure Investment Bank (AIIB) underscores this point.<sup>3</sup>

Finally, new political and economic challenges might be reinforced by changing perceptions of China in Germany. After several years of improving perceptions and a temporary peak in 2012, German views of China have rapidly deteriorated in the recent years, reaching an absolute low-point in 2014.

**Figure 2:**  
**German Perceptions**  
**of China's Global**  
**Influence**



Source: BBC World Service  
Country Poll

According to another representative study on German-Chinese perceptions<sup>4</sup>, 60 percent of Germans believe that China has a large or very large influence on Germany. This figure increases to 72 percent for business decision-makers and 91 percent for political decision-makers. Accordingly, 84 percent of Germans think that the economic relationship with China is at least as important as the one with the United States. However, at the same time, nearly one in every two Germans is concerned about rising Chinese economic power and only 24 percent of Germans hold a positive image of China.

<sup>2</sup> Sebastian Heilmann, Moritz Rudolf, Mikko Huotari, and Johannes Buckow (2014) 'China's Shadow Foreign Policy: parallel structures challenge the existing order', MERICS China Monitor No. 18.

<sup>3</sup> Mikko Huotari (2015) 'What went wrong with U.S. strategy on China's new bank', ChinaFile Conversation, 24 March 2015.

<sup>4</sup> Huawei-Studie 2014, [www.huawei-studie.de](http://www.huawei-studie.de).

## A new impetus for Europe-China relations from Germany?

Some recent, superficial and provocative analyses see Germany leaving the transatlantic path while accommodating China, or at least expanding its special bilateral relationship.<sup>5</sup> This perception is certainly not shared by German ministerial bureaucracies. However, German foreign policy will likely be forced to position itself more clearly (align with Europe?) in fields such as financial and cyber governance, with regard to Central Asia (Silk Road, Afghanistan) and East Asian security. Of course, Germany will try to continue to creatively play its agile 'niche policy', which involves a very pragmatic perspective on the management of relations with China. The on-going debate about the future path of German foreign policy ('Review 2014') also highlights diverging positions on the balance of a more bilateral China policy with one that is more European.<sup>6</sup> Yet, in the conclusions of the 'Review 2014', a thorough rethinking of Germany's foreign policy principles and priorities, the Foreign Ministry stressed again that Germany will not play along with the 'special partnership' assumingly offered by the Chinese (and Russia). On the contrary, highlighting its 'European reflex', German foreign policy increasingly seeks to be measured by the degree to which it is able to act as an instigator in Europe. If the outcomes of the 'Review' process actually materialize, Germany's China policy would need to play a vanguard or at least facilitating role in the further design and management of Europe-China relations. Given the particularities and changing conditions of Germany's economic relations with China this will be a difficult endeavour. A growing sensitivity for the vulnerability of China, the geopolitical dimension of China's rise and the challenges it poses for normatively grounded multilateralism will also complicate relations.

5 Hans Kundnani (2015) 'Leaving the West behind: Germany looks East,' Foreign Affairs 2/2015; Daniel Twining (2015) 'China's Transatlantic Wedge,' Foreign Policy (Shadow Government Blog 3/2015).

6 See, for instance, Gudrun Wacker (2014) Deutsche China-Politik: Doppelte Einbettung gebraucht! (SWP Kurz gesagt, 24 October 2014).

## 6 Greece and China: Discovering each other at last?

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(April 2015)

### Introduction

China has already become the world's second largest economy in nominal terms, whereas Greece is going through its worst socio-economic and political crisis since World War II. Yet, despite the striking contrast in terms of size and international weight of the two countries, Beijing and Athens are keen to make the best of Sino-Greek relations. The new Greek government that was sworn in on 27 January 2015 is increasingly looking for powerful partners outside the European Union, due to its ferocious confrontation with the Eurozone. In turn, Beijing is interested in turning Greece into a major conduit for the promotion of Chinese goods to Europe.

### General framework of bilateral relations

Sino-Greek relations, dating back to 1972, have intensified noticeably since the turn of the century, particularly since the 2006 visit of former Greek Prime Minister Kostas Karamanlis to China, though there is plenty of room for further development. For the time being, trade and, recently, Chinese FDI in Greece in the area of transport infrastructure stand out as the key areas of co-operation. Bilateral relations saw a considerable boost in June 2014 during the visit of China's Prime Minister Li Keqiang, when 19 agreements between the two countries were signed in one go. They relate to promoting political co-operation, but also to the economic/trade and cultural sectors. The partnership between the two countries has further deepened through the Joint Statement of the two countries' Prime Ministers, Antonis Samaras (at the time) and Li Keqiang. The trade agreements signed then are reportedly worth a total of some EUR 6.5 billion, and an agreement was concluded on the reciprocal establishment of cultural centres in Greece and China. The following month, China's President Xi Jinping paid an official visit to Greece. In March 2015, two months after the change of government in Athens, a Greek delegation led by Deputy Prime Minister Yannis Dragasakis visited China and the Prime Minister Alexis Tsipras is expected to travel to Beijing soon.

So far, political bilateral relations have not had considerable depth. On sensitive issues, such as human rights in China, or the issue of Taiwan, Greece keeps a low profile, though it is in line with the official position of the EU. Notably, there have been a number of media reports suggesting that Beijing threw its political weight behind Athens back in 2011-12, at a time when Greece was on the verge of leaving the Eurozone. Reportedly, it was in the interest of China to see a Eurozone that was as stable as possible, which would have been difficult to achieve in the case Greece had been forced to relinquish the Euro. Since January 2015, the new government in Athens has made no secret of its wish for a substantial loan from China as a counterweight to strained relations between Greece and the Eurozone, but this has

not materialised to date, apart from China buying a tiny portion of the short-term T-bills recently emitted by Athens.

## Trade and economic cooperation

Trade between Greece and China is marked both by its small scale<sup>1</sup> and an imbalance in favour of China. Over the 2012-2014 period, trade volume lingered at relatively low levels, between EUR 2.6 billion and EUR 2.8 billion. Greek exports in 2014 shrank by a worrying 34 percent compared to the previous year, which is attributed to the country's sinking competitiveness and productive capacity. At the same time, imports from China kept growing, which led to a 25 percent year-on-year leap in terms of the trade imbalance between the two countries. In 2014, China accounted for 5.2 percent of total imports into Greece, whereas Greece held a minor 1 percent share of China's total imports.<sup>2</sup>

	2012	2013	2014	Year-on-year change 2013-2014
Export	381.958.524	419.716.282	278.284.155	-34%
Import	2.290.541.187	2.194.147.182	2.492.120.849	+14%
Trade volume	2.672.499.711	2.613.863.464	2.770.649.004	+6%
Trade balance	-1.908.582.663	-1.774.430.900	-2.213.592.694	+25%

**Table 1:**  
**Greece's trade**  
**relations with China**  
**2012-2014**  
(in Euro)

Sources:  
Hellenic Statistical Authority;  
Embassy of the Hellenic  
Republic, Beijing

Cooperation in the area of shipping is becoming increasingly important. Greek shippers operate an estimated 16 percent of the world's fleet of dry-bulk and container vessels, and approximately a quarter of all oil tankers. At present, the Greek merchant fleet carries a large part of China's imported crude oil and more than half of its foreign trade commodities.<sup>3</sup> The shipbuilding industry is yet another area of Sino-Greek co-operation. As of April 2014, outstanding new building orders by Greek owners placed with Chinese shipyards amounted to 495 vessels, i.e. about 10 percent of global orders.<sup>4</sup> A growing number of new Greek-owned ships are being constructed in East Asia, with China steadily getting the upper hand over its competitors in the region.<sup>5</sup>

1 For instance, in 2011 bilateral trade between Greece and China was worth a mere €2.3bn - notably, the respective figure for trade between Greece and next-door Bulgaria (the poorest EU member state) amounted to €2.9bn that year.

2 'Trade Relations between Greece and China, 2013-2014', Trade and Economic Affairs Office, Embassy of the Hellenic Republic, Beijing, March 2015.

3 The share of Greek-owned cargo ships in China's overall import trade is set at 60 percent by the incumbent Chinese ambassador to Greece, Mr. Zou Xiaoli. A similar finding is offered by Asteris Huliaras and Sotiris Petropoulos (2014) 'Shipowners, ports and diplomats: the political economy of Greece's relations with China', Asia Europe Journal, September 2014, Issue 3, 215-230.

4 Clarkson Research, 'ShipOwner Orderbook Monitor', April 2014.

5 As of September 2013, Greek ship owners had ordered 188 vessels from Chinese yards, compared to 217 from Korean yards and 39 from Japan. However, in some markets - for instance, for bulk carriers - Chinese shipyards have already got ahead of their South Korean counterparts. 'China Attracts Greek Ship Owners', Wall Street Journal, 30 September 2013.

Joining forces at sea has also been an area of fruitful co-operation between the two countries. In March 2011 and in August 2014 thousands of Chinese workers were evacuated from violence-torn Libya on board Greek navy frigates and passenger ships, which is duly acknowledged by Beijing.<sup>6</sup> In turn, Greece has expressed its gratitude for the support provided to Greek commercial boats by the Chinese navy patrols against piracy off the coast of Somalia.

The new Greek government, which brings together radical left-wingers and right-of-centre nationalists, appears to be less eager to attract FDI than the previous cabinet was and it remains to be seen whether or not Chinese investment in the country will be affected by new policies. Given the ideology and protectionist inclination of the two parties forming the current ruling coalition, the government prioritises 'strategic partnership' over 'privatisation', and 'public interest' over 'dubious deals' or 'neo-colonialist contracts.' Among other things, Greek authorities insist on new jobs being created for local workers instead of seeing the China Ocean Shipping Company (COSCO) bringing over large numbers of Chinese staff.

What has been a top priority for Greece is the large-scale investment by the COSCO in the port of Piraeus, reportedly worth USD 4.3 billion. In particular, COSCO has a 35-year management lease for Piers II and III at Piraeus port that took effect in 2008. Not only has COSCO invested in port infrastructure, but it has also helped attract other leading corporations to operate from Piraeus, such as Hewlett Packard, Maersk, the Mediterranean Shipping Company (MSC), etc. Through COSCO's presence, Piraeus has become the fastest growing container port worldwide<sup>7</sup> and may be taking on dimensions that go beyond the specific investment project and possible follow-up initiatives.<sup>8</sup> Notably, before the agreement on Piraeus was signed, Chinese authorities were interested in another sea port in Tymbaki, Crete, but that project has now been abandoned.

The change of government in Athens was closely watched by Beijing, given the ambiguous rhetoric of the left-wing SYRIZA party. Prior to the 25 January 2015 elections, key SYRIZA representatives hinted that the deal with COSCO in Piraeus might be subject to review, which caused a flurry of contacts via diplomatic channels.<sup>9</sup> On 19 February 2015, Prime Minister Alexis Tsipras stated that Greece supports Chinese FDI in the country and is willing to attract further investment.<sup>10</sup> About a month later, Deputy Prime Minister Yannis Dragasakis travelled to Beijing and announced that Greece was ready to sell its majority stake in the port of Piraeus within weeks, quite a flip-flop from the pre-election rhetoric of the new government. COSCO is among five preferred bidders shortlisted under a privatisation scheme

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6 Greece had provided assistance for the evacuation of Chinese nationals during violent crises in Albania (1997) and Lebanon (2006) as well.

7 Frans-Paul van der Putten (2014) 'Clingendael Report: Chinese investment in the port of Piraeus', Netherlands Institute of International Relations.

8 For instance, the fact that the new Greek government has been looking for sources of finance other than the International Monetary Funds and EU partners.

9 For instance, Greek media reported a direct communication between the new prime minister, Alexis Tsipras, and his Chinese counterpart, Li Keqiang, immediately after the new cabinet was formed in Athens.

10 Speaking in Piraeus on the occasion of the visit of the 18th Task Escort Group of the Chinese navy, Mr. Tsipras referred specifically to Beijing's maritime Silk Road project, with the port of Piraeus serving as a significant hub on the route between Europe and Asia.



agreed by the previous Greek conservative-led cabinet.<sup>11</sup> In addition, during his visit to Beijing, Mr. Dragasakis attended the launch of the China-Greece Maritime Cooperation Year with vice-premier Ma Kai.

Despite the heated debates within the New Greek government and opposition on the specific terms of the Chinese investment in Piraeus, the COSCO project does not seem to be in danger and may in the future lead to other spin-off forms of co-operation. For instance, Chinese authorities have indicated their interest in the railway network of Greece, too, so that Chinese commodities can easily be transported further north towards the Balkans and Central Europe.<sup>12</sup>

## Tourism and culture

Greek authorities and businesses are eager to see a significant increase in the number of Chinese tourists visiting the country and, apparently, the potential of this area of co-operation deserves to be explored. Some 100,000 Chinese citizens are reported to have visited Greece in 2014, more than twice the number of visitors in 2013,<sup>13</sup> and four to five times as many as those in 2012. Since June 2014, there have been direct flights between Shanghai and Athens, and more direct flights are being planned for the summer of 2015. The Greek Tourism Organisation has announced that it is about to launch a series of webinars targeting some 1,000 travel agents in China.

Greek letters and language are fairly popular in China, and several Chinese universities and institutes run relevant programmes. For instance, there is a Chair of Modern Greek at the University of Shanghai, a Centre of Greek Studies at the University of Peking, and a Greek Language Department at Beijing Foreign Studies University. It is worth mentioning that the Stavros Niarchos Foundation supports the 'Odysseus' language programme for the online tutoring of the Greek language, history and culture in 21 universities in China.

On the contrary, Asian studies, including Chinese studies, remain underdeveloped in Greece and have until recently been confined to Asia Minor (Turkey) and West Asia (the Middle East). Nor is the current economic crisis conducive to the advancement of Asian studies in the country's educational and research institutions. The first endeavour took place at the Institute of International Economic Relations (IIER) back in 1998, through its Asia Unit and in the form of seminars, lectures and research papers.<sup>14</sup>

11 According to the Xinhua news agency, Mr. Dragasakis hinted that COSCO was a forerunner, 'In u-turn, Greece will sell Piraeus Port stake in weeks - Xinhua', Reuters, 28 March 2015.

12 While in Beijing, Mr. Dragasakis clearly referred to future projects that could be carried out along the maritime Silk Road ('we have the ports, then logistics, then the railway to Serbia and Hungary'), China Daily, 'Piraeus port deal still alive, Greek deputy PM says', China Daily, 28 March 2015.

13 Association of Hellenic Tourism Enterprises (SETE).

14 Yolanda Fernández Lommen and Plamen Tonchev (1998) 'China in East Asia: From Isolation to a Regional Superpower Status', IIER.

At present, there is a Chinese Cultural Centre in Athens, and the Universities of Athens and Peking have signed a Memorandum of Understanding. There are still few courses at university level that touch on Chinese studies, e.g. there is only one Confucius Institute in Greece. The Business Confucius Institute was set up in 2009 at the Athens University of Economics & Business, in co-operation with the Beijing University of International Business & Economics and Office of Chinese Language Council International (HANBAN). At the same time, it is safe to say that interest in Chinese studies is growing in Greece and higher educational institutions are exploring avenues for a more systematic approach to this topical area.<sup>15</sup>

### **Concluding remarks**

Sino-Greek relations are definitely entering a new phase, which is strongly marked by three parallel trends: China's growing interest in Europe as a market for its goods and services, using Greece as a logistics hub; Greece's fiscal and economic predicament, and a significant political change in the country yet to be properly 'deciphered'; and Greece discovering China as a major partner, though the level of understanding of China's strategic priorities and intentions remains rather low in Greece at this stage.

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15 The best example worth highlighting is the Consortium for the Promotion of Sino-Greek and Sino-European Relations, which brings together six Greek research and educational institutions, namely the Hellenic Center for European Studies (under the Ministry of Foreign Affairs), the Hellenic Foundation for European and Foreign Policy (ELIAMEP), the Institute of International Relations (of the Panteion University, Athens), the Institute of International Economic Relations (IIER) and the University of the Aegean and the University of the Peloponnese.

# Hungary and China: Hopes and reality

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## Introduction

At the dawn of the 21st century Hungary was one of the first post-socialist Central European countries to rediscover China after more than a decade occupied with its EU and NATO accession processes. All of the four Hungarian prime ministers to have served during the last decade have visited Beijing, most of them more than once. As part of an effort to revitalize relations, the Hungarian government was also pleased to host the first meeting of the Central and Eastern European (CEE) Countries and China (now the 16+1 framework) in 2011.

The Hungarian government is well aware of the fact that, relative to the size of its country, Budapest enjoys comparatively high levels of attention in Beijing. Most observers tend to believe that factors such as the size of the Chinese diaspora, the early positive political signals sent by Budapest, or even the legend of Sino-Hungarian brotherhood (just think about the East Asian styled order of names in Hungary) might have played an important initial role in this. Indeed, Hungary had received by far the largest stock of Chinese foreign direct investment (FDI) in the CEE region as of 2014<sup>1</sup>, while the strategic location of the country might provide further economic opportunities. When it comes to trade relations, Hungary is one of the most important partners of China in Central Europe, although it has to be noted that international trade is largely dominated by trans-national companies with production facilities in Hungary.

## Hungarian political attitudes towards China

### *Early years*

Hungary officially recognized the People's Republic of China on 4 October 1949. Given the country's own communist past, it is important to note that the People's Republic of Hungary (and later the Republic of Hungary) has supported the Chinese position on Tibet, the One China Policy and UN Security Council membership from the very beginning of the Communist Party of China's (CPC) rule. Subsequently, relations deteriorated during the Sino-Soviet split and China's Cultural Revolution. The democratic transition of Hungary in 1989 affected the bilateral relation negatively once again. The reorientation of Hungarian foreign policy and new ideological differences resulted in low profile contacts for more than a decade.

1 For further details see Ágnes Szunomár, Katalin Völgyi and Tamás Matura (2014) Chinese investments and financial engagement in Hungary, Conference proceeding, Warsaw, 26 May 2014.

### *A new chapter in Sino-Hungarian ties*

The 21st century has brought a new dawn to Sino-Hungarian relations, as the Hungarian government realized that after the successful EU and NATO accession process of the country more priority had to be given to emerging powers as potential partners. Prime Minister Peter Medgyessy visited Beijing in 2003. Budapest created a new special envoy position within the Prime Minister's Office for the development of Hungarian-Chinese relations and for the coordination of the China-related work of governmental institutions and the public administration. The opening to China bore its first fruit in 2004, when President Hu Jintao paid a return visit to Hungary, at the time its most important economic partner in the CEE region.

The second (2010-2014) and third (2014) Orbán governments have paid special attention to China, due to the economic crisis in Europe. Hungary started to search for new opportunities to support its recovery from recession. The so-called Eastern Opening Strategy was implemented from 2010-11 as a reaction to the crisis. It has to be mentioned, however, that this political will has never been formulated in a written format (and therefore does not have the status of a formal strategy).

Mr. Orbán established official party to party relations with the CPC even before the elections in 2009, and he visited China as prime minister at the end of 2010. Premier Wen Jiabao paid a visit in return to Budapest in May 2011, which also provided the opportunity to initiate the now annual China-CEE summits. Orbán's new, pragmatist attitude towards China surprised most observers, since during his first term he had nurtured strong anti-communist sentiments, and even met the Dalai Lama in his office in 2000.

### **Excellent political relations as a foundation of economic cooperation**

Although the Hungarian political arena is rather divided, Sino-Hungarian relations enjoy a privileged position on all major parties' agenda. The second and the third Orbán administrations have not only continued the efforts of their predecessors but even increased them in order to forge excellent political relations with Beijing. No matter how fierce the domestic political debates are, none of the parties question the importance of China, and even liberal parties are remarkably silent about human rights or other politically sensitive issues. This attitude might have some roots in the generally favourable views of Hungarians about China.

The main goals of Hungarian governmental policies towards China since 2003 have always been economic. Good political relations were and are the tool and not the purpose. The purpose has been the boosting and possibly the restructuring of bilateral trade, the relative reduction of the trade deficit, and the inflow of Chinese FDI in order to create jobs. During the clashes of the second Orbán cabinet with the EU (2010-2014) a political factor emerged as well, since potential Chinese support might have provided political capital to the Hungarian government during its differences with the EU – or at least Mr. Orbán hoped so.

Generally speaking, the impression is that in their public communications Hungarian politicians tend to overestimate the significance of the Chinese involvement in the country, and they generate exaggerated hopes and expectations

in society as well. When some civil society actors demand more pressure on China from the government with regard to human rights issues, politicians usually point at Western examples, saying that major EU members do not really care about political issues either. Hence, most Hungarian politicians are glad that the Sino-Hungarian political agenda is completely free of any thorny issues.

## **The 16+1 Platform**

After the first China-CEE conference in Budapest in 2011, the institutionalization of the initiative in Warsaw in 2012 was a clear sign of success for the CEE countries. The setup of the Secretariat for China-CEE cooperation was another milestone in the development of relations in September 2012. The Hungarian government pays close attention to the 16+1 cooperation, although it concentrates mostly on the economic aspects of the initiative, while China and some more strategic CEE countries play on other levels as well. After the first few years of strong enthusiasm for the 16+1 project the situation has changed in Hungary. The government had announced several major Chinese infrastructure investments in the country (a high-speed railway line connecting downtown Budapest and the airport; a railway bypass around the capital city etc.), but none of these actually materialized. The latest hope now is the Budapest-Belgrade railway line, which seems to be very important to the Chinese side too, since it would be a crucial part of their new Silk Road project and the north-south transport corridor stretching from Piraeus through Central Europe to Western Europe. Agreements were signed at the third China-CEE summit in Belgrade, in December, 2014. According to the plans the line should be fully operational by 2017, which seems to be a quite ambitious deadline.

## **Unbalanced trade and one sided investment relations**

With regard to Chinese foreign direct investment Hungary enjoys a favourable situation compared to other countries of the CEE region. Although experts have to regularly face the well-known uncertainties around available statistics, the stock of Chinese FDI probably reached USD 2.5 to 3 billion by the end of 2014. According to diplomatic sources it might be even higher, over USD 3 billion. Unfortunately the inflow of Chinese FDI is highly concentrated, as around 75 percent of the total amount is connected to one single transaction, the acquisition of chemical company Borsodchem by the Chinese Yantai Wanhua Group.

Besides Yantai Wanhua, major investors are Huawei, ZTE, Lenovo, Sevenstar Electronics Co., BYD Electronics and Comlink. Unfortunately, greenfield investment is not a typical means of Chinese investment in Hungary, although Hungary really needs new jobs. Chinese companies prefer mergers and acquisitions. The Hungarian government hopes that when the pattern of global Chinese investment will turn towards manufacturing abroad, Hungary could be one of the destination countries.

When it comes to bilateral trade relations the European context does matter. It means that the Eastern Strategy has brought some fruits, although it has to be noted that declining European consumption might have played a significant role in this process. Should the EU speed up its recovery, Hungarian foreign trade might eventually return to its traditional partners on the continent. China is the main target of the Eastern Opening Strategy, and according to data from the Hungarian Central

Statistical Office imports from China have risen by 19 percent, while exports have seen an extraordinary 82 percent increase during the last four years. 2013 seemed to be a particularly successful year as Hungarian exports grew by 10 percent in USD terms, while the decrease of imports slowed down. The latter process is fortunate since most of the Chinese goods imported to Hungary are parts and accessories of other, high value added products to be assembled in Hungary and re-exported to Western Europe.

Detailed data on exports reveal that the increase reached HUF 37 billion (RMB 1 billion) in 2013, which represents an increase of 9.12 percent (10 percent in USD terms). According to data gathered by the Hungarian Central Statistical Office specifically for this paper, it becomes clear that multinational companies are the major players in the field of Sino-Hungarian bilateral trade. MNCs represent 93.6 percent of total Hungarian exports to China, while the share of Hungarian owned enterprises is a modest 6.4 percent. Of course, these MNCs create jobs, pay taxes in and bring prosperity to the country, therefore their success in China is the success of Hungary as well. Still it has to be noted that Hungarian companies need more support from the government to achieve a better performance in China. It is remarkable that 56 percent of the total increase in 2013 came from automotive companies owned by MNCs. Another 27 percent of the increase came from the pharmaceutical industry, which was able to boost its exports to China by 700 percent on a year to year basis.

With regard to trade relations the imbalance and structure of imports and exports will remain a challenging factor. Even though we know that a significant amount of Hungarian imports from China constitute important inputs for domestic industry, it would be desirable to provide better opportunities to Hungarian owned companies. It seems to be clear that in the fields of merchandize trade it is impossible to achieve a balance, although the service sector, especially tourism, may contribute to a better balance. Given the fact that after the third China-CEE summit in Bucharest in 2013 Hungary became responsible for tourism relations between China and the region, it is really important for Budapest to utilize this opportunity. Major geographical and cultural differences still hamper the market access of Hungarian companies in China.

### **Chinese attitudes towards Hungary**

According to Hungarian assessments Hungary enjoys a friendly partnership with China, free of thorny political issues. In the late 1980s the Hungarian government provided visa free entry for Chinese citizens for a few years, which contributed to the rapid increase in the size of the Chinese diaspora in the country. Probably the relatively high number of Chinese people in Hungary (approx. 40,000 in the late 1990s) attracted the Bank of China to Budapest in 2002 and led to the opening of the Sino-Hungarian Bilingual Primary School in 2004 (now there is a secondary school as well). Most Chinese tend to mention the legend of Sino-Hungarian ancient brotherhood, and they are aware of the remarkable East Asian styled order of names in Hungary (family name comes first). Thanks to the communist era, some Hungarian cultural products, like famous poems and songs are mandatory learning materials in Chinese primary schools, which also connect the people of the two sides. According to most Chinese experts Beijing sees Hungary as a geographical and logistical centre of the CEE region and the most important player among the southern part of the 16 CEE countries (while Poland is the centre of the Northern part).

Economically speaking, China appreciates Hungary as a part of the EU and the CEE region, but does not develop special economic plans or interests exclusively for Hungary. Budapest could be important as a part of the New Silk Road project, but not as an individual country. It is obvious that the main business interest for China is to get a piece out of the regional infrastructure public procurement pie, and Hungary is sitting in the middle of the region.

## **Conclusion**

Hungary has enjoyed excellent political relations with the PRC over the last decade. Mutual high level visits and the leading role of Budapest in forming the 16+1 cooperation have all contributed significantly to the quality of bilateral relations. However it seems to be more complicated to develop economic cooperation between the two sides. Even though Hungary has received a significant amount of Chinese FDI in the recent years, these investments are concentrated in two or three businesses and there has not been any major new investment since 2010. China is interested in infrastructure building, while Hungary would like to see new job opportunities emerging from the cooperation. Bilateral trade is totally controlled by MNCs and therefore the government has a limited role in boosting trade relations. However, tourism might be an area of new opportunities, since Hungary has been selected to set up the 16+1 coordination centre for tourism, while Air China is launching a new Budapest-Beijing direct flight.

## 8 Italy and China: Investing in each other

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The first encounters between Italians and Chinese stretch back to the middle ages, when Venetian merchants (among whom there was Marco Polo) began opening up trade routes – later known as the ‘silk road’ – with the Celestial Empire. In 2015, Italy and China celebrate the 45th anniversary of the establishment of diplomatic relations. The Italian government recognised, in fact, the People's Republic of China (PRC) on 6 November 1970, almost five years before the European Community opened diplomatic relations with the PRC (which occurred on 6 May 1975). Beijing and Rome established a comprehensive strategic partnership in 2004. This represents a turning point in bilateral relations. To give meaning and content to the strategic partnership, the two sides set up an inter-ministerial committee – led by each country's Minister for Foreign Affairs – which has been the focal point for coordinating bilateral relations over the last decade.

### **Key priorities for Italy**

#### ***Improving bilateral economic ties***

Italy is Europe's second largest industrial country (after Germany), but lacks the political and strategic assets that France and the United Kingdom have (such as the permanent membership of the UN Security Council). As a result, Italy's approach toward China has been one of a trading nation, focusing mainly – though not exclusively – on the promotion of its economic interests. Two-way trade totalled more than EUR 60 billion in 2014. China is Italy's third most important commercial partner (after Germany and France, but ahead of the United States), ranking as the third largest origin of imports to Italy and the seventh largest destination for Italian exports. Since the early 2000s, Italy has recorded a trade deficit with China. Italian firms have invested more than EUR 6 billion in China, a sum similar to current Chinese investments in the Italian peninsula. Premier Li Keqiang's most recent visit to Italy in October 2014 ended with resolutions to expand investment ties and redress the trade balance. For instance, the two sides signed 20 trade agreements worth around EUR 10 billion, while identifying some concrete measures to reduce Beijing's bilateral trade surplus with Rome. At the ASEM Summit in Milan in October 2014, Matteo Renzi, Italy's Prime Minister, expressed support for the opening of negotiations with China on a Free Trade Agreement.

#### ***Promoting cooperation and political dialogue on global issues***

Italy-China relations include a political-security dimension as well as a growing number of sectorial dialogues. For instance, in a joint declaration issued during Li Keqiang's visit to Italy in mid-October 2014, the two sides made pledges to boost cooperation in areas such as justice, law enforcement, security, rule of law and the fight against transnational crime and terrorism. It remains to be seen, however,



whether the two sides will be able to cooperate on these issues effectively, given their different political and legal systems. In addition, the two governments reached consensus on strengthening collaboration in five priority areas: energy conservation, environmental protection, food security, aviation and space.

### ***Supporting scientific and technological collaboration***

Since the early 2000s, the Italian government has bolstered scientific and technological cooperation with Chinese research institutes and companies, including sectors with potential security implications such as aerospace and satellite technology. Since the beginning Italy has supported EU cooperation with China in Galileo and other space technologies. Romano Prodi, the former President of the European Commission (1999-2004), was at the forefront of this form of collaboration with China, while Antonio Tajani, the former European Commissioner for Industry and Entrepreneurship (2009-2014), upgraded and expanded Sino-European cooperation in space and satellite technology in September 2012, as part of his plans for a new industrial revolution in Europe. Notwithstanding Italy's strong transatlantic ties, all the Italian governments of the last decade have been in favour of space cooperation with China and supported the proposal to lift the arms embargo.

### ***Fostering cultural exchanges, tourism and the 'Italian lifestyle'***

Given Italy's rich historical heritage, artistic and cultural exchanges are an important part of Sino-Italian cooperation. In this vein, the Italian government has focused its attention on attracting Chinese tourists to Italy. By the end of 2014, almost a quarter of Schengen visas issued in China were done by Italy's diplomatic representations in Beijing, Shanghai and Guangzhou. In recent years, Rome has also prioritised the promotion in China of the so-called 'made in Italy' – e.g. export of products such as fashion, luxury goods and food associated with the 'Italian lifestyle'. The Milan World Expo in 2015, around the theme of food, has been the object of a specific cooperation programme between China and Italy. In such context, the two sides have agreed on simplified visa procedure for the Milan World Expo which is expected to attract around 3 million Chinese visitors.

### **Focus on investments**

At the end of April 2015, the China-Italy inter-ministerial committee took place in Beijing, coinciding with the visit to China of the new Italian Minister for Foreign Affairs, Paolo Gentiloni. At the margin of the inter-ministerial committee, a China-Italy Business Forum for Small and Medium Enterprises (SMEs) – initially proposed by the Italian government – was held to discuss industrial cooperation, non-tariff barriers and market access, with particular attention devoted to the question of Chinese investments in Italy, which have increased significantly in the last year.

Since early 2014, the People's Bank of China (PBOC) – through its investment arm, the State Administration of Foreign Exchange (SAFE) – has invested more than EUR 3.2 billion on stakes of about 2 percent each in eight of Italy's largest companies: these include Fiat Chrysler Automobiles and the state-controlled Eni (oil and gas operator). This has made the PBOC the 12th largest investor in Italy's stock

exchange. Moreover, in May 2014 the Shanghai Electric Group bought a 40 percent stake in power engineering company Ansaldo Energia for EUR 400 million. This was quickly followed by China's State Grid's acquisition of a 35 percent stake in energy grid holding company CDP Reti for EUR 2.1 billion. Italian media and public opinion showed mixed feelings towards these deals: on the one hand, the investments were welcomed as they demonstrated trust in the Italian industrial sector and provided fresh liquidity to the system; on the other hand, some media outlets and public opinion voiced concerns about China's acquiring stakes in strategic assets for the political implications that this may have.

Due to the lack of reliable information on China's FDI, providing figures on how much investment has so far targeted Italy is a difficult task. According to the estimates by the Heritage Foundation, reported by the Financial Times<sup>1</sup>, by the end of June 2014 Beijing had invested about EUR 7 billion in Italy, half of which was recorded in the first half of 2014.

This financial interest for Italy (and Europe in general) is part of Beijing's broader strategy to export capital and political influence. In 2014, China became a net exporter of capital for the first time after the country implemented legislation that reduces restrictions on outbound investment and encourages companies to look overseas for mergers and acquisitions.

In November 2014, President Xi Jinping announced that Chinese offshore investment will reach USD 1.25 trillion over the next decade, nearly tripling current Chinese outbound direct investment. This sum includes a USD 40 billion contribution to the Chinese-led 'Silk Road Fund' for infrastructural developments that support his vision of a 'Silk Road Economic Belt and the 21st Century Maritime Silk Road'. The Maritime Silk Road is meant to connect China with the Mediterranean – at the centre of which lies the Italian peninsula. This makes Italy an apt entry point for Chinese goods destined to Central and Northern Europe. Chinese officials have declared on several occasions their interest for Italy as a gateway to the Mediterranean, a view expressed more recently by the Chinese Ambassador to Italy in an op-ed published by *Il Sole 24 Ore* (Italy's leading business newspaper) on 25 April 2015.

Italy is considered as an attractive destination to Chinese investors. This is not only due to Italy's large market or its strategic position in the heart of the Mediterranean. Increasingly, Italy is seen as a valuable source of those strategic assets in both traditional and advanced activities of which Chinese companies are very eager.

Taking stock of the existing evidence on Chinese investments in the country, it seems possible to identify different types of investors. The first type is represented by firms whose decision to invest in Italy is part of an organic strategy of growth in foreign markets. Most of these companies have established small representative or marketing offices in Italy as part of their European strategy. Over time, some of these firms have targeted Italy as a more strategic location, giving rise to a second type of investor, now embedded in the Italian peninsula. For instance, Italy has been chosen as the European headquarters by Haier in the white-goods industry due to the presence of major competitors such as Ariston or Whirlpool. It has been chosen to

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1 'Chinese investors surged into EU at height of debt crisis', *The Financial Times*, 6 October, 2014.

house a leading research centre by Jac and Changan in the automotive industry due to the availability of relatively lower cost but well-trained, skilled employees together with a tradition of excellence in the industry. It has also been chosen as a large-scale logistics platform for COSCO, thanks to its favourable location in the Mediterranean.

A last type of investment involves the larger operations – mostly M&A – made so far by Chinese investors with the aim of getting access to strategic resources. Initially, as it happened in other European countries, such acquisitions have targeted financially constrained firms and have been used as a test bed for relatively inexperienced Chinese investors. Indeed, as in the case of Benelli, such inexperience, together with large cultural and managerial differences, resulted in troubled management of the acquired company, translating into a poor post-acquisition performance. Later on, and especially in the aftermath of the financial crisis, the acquisition strategies of Chinese firms have become more aggressive and successful and are now also targeting larger-scale assets, including those owned by public companies, as exemplified by the very recent cases of Ansaldo, CDP Reti and Pirelli.

The Italian government has consistently supported Chinese investments. But more recently, in order to be more attractive, the current government led by Matteo Renzi has adopted new measures to enhance the country's competitiveness, especially with regard to infrastructure endowments, service provisions and the removal of high levels of bureaucracy and red tape. If we compare the activities implemented by the Investment Promotion Agencies (IPAs) of the EU-28 countries, Italy's backwardness emerges quite clearly. A detailed review of IPAs' activities show, for instance, that Italy is the only advanced European country that does not seem to have a tailored approach to Chinese investors. For instance, Italy is one of the few countries that does not provide website information in Chinese.

### **Key challenges for Italy-China relations**

Notwithstanding the positive impact that Chinese investments have for jobs – Italy's unemployment rate is one of the highest in the EU – the majority of Italian public opinion holds negative views about China, according to polls in the media. Since the mid-2000s, in particular in the aftermath of the so-called 'bra war' that saw Italian textile manufacturers badly damaged, large parts of Italy's public opinion begun perceiving China's economic rise as a threat. This is based on the argument that China is invading the Italian market with cheap products and taking away jobs in the manufacturing sectors. This viewpoint is strengthened by Beijing's active industrial policy, which is turning the country into a low-cost competitor in medium and high-skill industries, something that affects Italian SMEs quite significantly.

Moreover, the question of values remains a thorny issue in bilateral relations. Although the Italian government rarely raises the question of human rights and democracy with Chinese leaders (a practice quite widespread in Europe), Italy's public opinion has much sympathy for the Tibetan question and is concerned about the human rights situation in China, something that contributes to reinforcing negative perceptions about the country among the public and some sectors of the political and media elite. It is precisely to balance these negative perceptions that China has

started investing in earnest in stocks of Italian companies, acquiring stakes of more than 2 percent which – by Italian law – require issuing an official public notification to the market, a move that has so far succeeded in contributing to a positive image of China among the public opinion in recent months. This is demonstrated, for instance, by the positive coverage that China is receiving from the popular press, in stark contrast to previous years when the same press was visibly critical toward China. It is, however, too early to say whether this represents a turning point in Italy-China relations.

# Netherlands-China relations: Aiming for openness and pragmatism

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(April 2015)

As a result of a long history of Dutch activities in Asia, diplomatic, business, academic, personal, and cultural ties between the Netherlands and China are long-standing and well-developed. Currently, the Netherlands is China's second largest trade partner in the EU and the third largest EU investor in China.<sup>1</sup> Sino-Dutch relations have been intensifying over the past few years. The Netherlands was the first European country visited by Xi Jinping after he became president. Although Xi came to the Netherlands on the occasion of the 2014 Nuclear Security Summit (NSS) in The Hague, he paid an official state visit to the Netherlands in the days prior to the summit. The fact that Xi did not first visit more obvious destinations such as Germany or the EU institutions in Brussels (two major centres of political and economic power in the EU) is perhaps more notable than him selecting the Netherlands as the start of his European trip. However, including the state visit to the Netherlands in his itinerary suggests that Sino-Dutch relations are on a solid basis. During Xi's visit, China and the Netherlands agreed to establish an 'open and pragmatic partnership for comprehensive cooperation'.<sup>2</sup> While the two countries apparently conceived this phrase as an alternative to the often-used term 'strategic' to characterize this particular bilateral relationship, it remains unclear what exactly its significance is.

## Key priorities for the Netherlands

Although the Dutch government has a large number of focus issues with regard to China and official relations are shaped by many ministries and at many levels,<sup>3</sup> three major aims stand out.

### *Improving bilateral economic relations*

Like other European countries, the Netherlands strives towards improved market access in China, and wants to attract Chinese FDI. Increasingly, Dutch companies are also confronted with cooperation and competition with Chinese counterparts in third markets. The Netherlands is the second largest exporter of agricultural products to China, and – with the Port of Rotterdam and Schiphol Airport – a major logistical hub for trade between China and Western Europe. Large Netherlands-based companies such as Shell, Philips, Unilever, Akzo Nobel, and DSM have long been major direct investors in China. Dutch companies also aim to contribute to (and benefit from) the urbanization and social reform processes taking place in China.

- 1 Speech by Minister Ploumen at Fudan University, Shanghai 28 October 2014, <http://www.rijksoverheid.nl/documenten-en-publicaties/toespraken/2014/10/28/speech-by-lilianne-ploumen-minister-for-foreign-trade-and-development-cooperation-at-fudan-university-shanghai-28-october.html>.
- 2 Joint Statement between the People's Republic of China and the Kingdom of the Netherlands on the Establishment of an Open and Pragmatic Partnership for Comprehensive Cooperation
- 3 'Het Nederlandse China-Beleid: Investeren in waarden en zaken', Report by the Dutch Ministry of Foreign Affairs on Dutch China policy submitted to Parliament, 4 Nov. 2013.

### ***Promoting human rights***

The Dutch government has a policy of what it refers to as 'mainstreaming' human rights issues in Sino-Dutch relations. This means that it strives to address human rights not as an isolated issue, but in the context of 'regular' interaction on economic, cultural, developmental, and other topics. As a part of this approach, all cabinet ministers who meet with their Chinese counterparts address human rights issues from the perspective of their particular fields. Moreover, they discuss human rights not only with the Chinese government but also with non-governmental organisations, semi-governmental organisations, knowledge institutes and businesses in China and the Netherlands.<sup>4</sup> The Netherlands and China have a bilateral dialogue on human rights that was most recently held in December 2013. The Dalai Lama occasionally visits the Netherlands, most recently in 2009 and 2014. On both occasions he met with Dutch members of parliament and – in his capacity as religious leader – with the Dutch Minister of Foreign Affairs (in the context of a meeting with other religious leaders). These instances led to formal protests from the Chinese embassy but did not seem to have damaged the Sino-Dutch bilateral relationship.

### ***Inducing China to cooperate on global issues***

In the past few years there have been some – largely symbolic or explorative – exchanges with regard to potential cooperation on international security issues such as maritime piracy and terrorism. Both Dutch and Chinese military forces have been involved in counter-piracy missions in the Gulf of Aden and both sides operate in Mali as part of the UN MINUSMA mission. The Dutch government believes that it is essential for the functioning of the international system – and thus for its own security and welfare – that China is an engaged and active participant. However, so far initiatives by the Dutch government to stimulate Chinese engagement in addressing international security issues have remained limited. There have been occasional military exchanges, such as visits between each other's navy ships in the Gulf of Aden or Chinese warships visiting the port of Rotterdam, but no major programs for cooperation in the security field. The Dutch government's 2013 report to parliament on its China policy acknowledges that China is dissatisfied with the fact that Western countries still dominate international political and economic institutions, but it makes no statement on whether or how this matter should be addressed.<sup>5</sup>

### **Key priorities for China**

The Chinese government appears to strive for the following main aims in its relations with the Netherlands:

### ***Improving bilateral economic relations***

During his state visit to the Netherlands in 2014, Xi Jinping mentioned four economic sectors that are important areas of bilateral cooperation (in this order): agriculture, water management, petrochemicals, and logistics.<sup>6</sup> Major Chinese (and Hong Kong)

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4 Ibid. p.8.

5 Ibid. p.4 and 5.

6 Op-ed by Xi Jinping in the Dutch newspaper NRC Handelsblad of 23 March 2014, <http://www.nrc.nl/nieuws/2014/03/23/ik-heb-hoge-verwachtingen-van-mijn-bezoek-aan-europa/>.

direct investments in the Netherlands relate to the port of Rotterdam (by Hutchinson Whampoa) and the telecom sector (Huawei). Chinese investors are also interested in mid-sized Dutch companies with specialized technologies in various sectors. Both the Bank of China and ICBC have offices in the Netherlands.

### ***Improving China's relations with and position regarding the European Union and international organisations***

This aim corresponds well with the emphasis of Dutch China policy on the EU dimension. The Dutch government wants to play a prominent and active role in helping to shape and improve EU-China relations, and to ensure that the EU's China policy is coherent and comprehensive. When Xi visited the Netherlands he emphasised his view of the Netherlands as an important partner of China with regard to the EU level. For its size, the Netherlands traditionally has been very active in many multilateral organisations, including NATO and the UN. It has close relations with larger Western countries such as the U.S., Germany and the UK, while it is not itself a potential threat to Chinese national security. And the Netherlands is host to several multilateral organisations such as the ICJ, ICC, and the OPCW, as well as a large number of international NGOs. All of these factors combined make it worthwhile for China to pay special attention to the international dimension in its bilateral relations with the Netherlands.

### **Key challenges and roadblocks for Dutch China policy**

The long history of Sino-Dutch relations has brought along some traumatic experiences that continue to play a role in the bilateral relationship today. The Netherlands is a former colonial power that enjoyed special privileges related to this status in various parts of the world, including in China, where it was part of a small group of foreign powers that jointly controlled the main revenues of China's central government during the first three decades of the twentieth century. This historical background undermines Dutch attempts to cooperate with China on developmental issues in third countries, as the Chinese government often refers to a shared past of colonial suffering in its formal communications with developing countries. Part of this message is also the notion that the former colonial powers have not fully abandoned their imperialist mind-set as they still do not approach developing countries on the basis of equality but instead try to export their own values. As a result, China is careful not to be seen as cooperating with Western countries – in particular if they are former colonizers – on development issues in third countries. For the Netherlands this is likely to limit the opportunities to expand its bilateral relationship with China to include a joint approach to development cooperation in Africa and elsewhere.

A second obstacle that relates to past experiences is that in the early 1980s, China reacted in an unexpectedly forceful way to the Dutch government's decision to allow Taiwan to purchase two Dutch-built submarines. At the time, China responded by downgrading diplomatic ties and severely limiting the commercial interaction with the Netherlands. A further, smaller, incident occurred in 1997, when the Netherlands supported a resolution at the human rights committee in Geneva that was critical of China's handling of human rights issues. The Netherlands held the EU presidency at that time; China responded by postponing a Dutch trade mission to China. A consequence of these events today is that the Dutch government and Dutch

business organizations are well aware of the delicate balance between economic interests and Chinese political sensitivities.

A third obstacle stems from the geopolitical domain. Because the Netherlands is a military ally of the United States, Sino-Dutch relations could potentially be influenced by the increasingly tense Sino-U.S. relations. As a small country, the Netherlands is the junior partner in this triangular set of relationships. Since its relations with both the U.S. and China are of great importance, the Dutch government needs to avoid getting into situations when it faces contradictory demands and pressure from the two major powers. The EU arms embargo is an example of a topic with regard to which such conflicting demands already exist. Over the past decade the Chinese government has often stated that the arms embargo is an obstacle to improved Sino-European relations, whereas the U.S. government has maintained the position that an end to the embargo would seriously harm Trans-Atlantic relations. Increased pressure on this issue from Beijing – should this ever occur – could lead to tensions among EU member states and make it difficult for the Netherlands to take a position. Another example relates to Sino-Dutch cooperation in the telecommunications sector, given the fact that the U.S. government limits the involvement of Chinese telecom firms in the U.S. for reasons of national security. A worsening of Sino-U.S. relations could increase pressure on Dutch companies to limit or abandon cooperation with Chinese counterparts in sensitive sectors such as telecommunications. As Chinese investment in the Netherlands continues to increase, the space for the Dutch government to manoeuvre between potentially conflicting instances of Chinese and U.S. pressure gradually decreases. More recently in early 2015, the Dutch government faced the dilemma of whether or not it should become a member of the Asian Infrastructure Investment Bank (AIIB), a move that would be welcomed by Beijing but against which Washington was leading an international lobby. The Netherlands formally applied for the AIIB's membership on the occasion of Prime Minister Rutte's attendance of the Bo'ao Forum, after the EU's major economies – and major U.S. allies – had already paved the way by announcing that they were doing the same.

Finally, a last obstacle for Dutch policy towards China relates to the differences between the two countries' political-economic systems. In the economic domain, a major challenge for the Dutch government is how to preserve the competitiveness of the Dutch economy in the face of (actual or perceived) Chinese practices such as state aid, state-supported industrial espionage, more or less forced transfers of technology, and lack of reciprocity with regard to market access, all of this in combination with China's economic size. China's policy to establish a '21st Century Maritime Silk Road' between Asia, Africa and Europe has brought about increased involvement of Chinese firms in port construction projects in many countries, and is likely to enhance China's role in maritime shipping. In both these sectors the role of the Chinese state is strong. This has a potentially negative effect on the competitiveness in international markets of Dutch companies specialised in maritime infrastructure, as China prefers to involve mainly Chinese firms in major contracts. In the longer term, the increased influence of the Chinese state in international shipping could also affect the position of Rotterdam as Europe's busiest port. In the political sphere, Dutch foreign policy is challenged by conflicting views on international norms. From a Dutch governmental perspective, promoting human rights and democracy internationally is a positive norm. But from the point of view of the Chinese government, the more appropriate



counter-norm is to accept different political systems as they are. This issue has long existed in the Sino-Dutch relationship, but is now increasingly becoming relevant also with regard to the way the two countries interact with third countries and international organisations. Finally, differences in views on political values could in the future also affect the bilateral relationship, for instance with regard to activities of exiled opponents of the Chinese government or human rights activists who are based in the Netherlands.

## Poland-China relations: Forging a strategic partnership

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(September 2015)

### Comprehensive Relations?

Sino-Polish relations<sup>1</sup> have been significantly reinvigorated in recent years, following a period of mutual insignificance due to Poland's transformation and goals of becoming a NATO and EU member. The symbolic shift was the upgrading of bilateral ties to a 'strategic partnership' during Polish President B. Komorowski's landmark visit to China in December 2011<sup>2</sup>. Closer relations were confirmed by Prime Minister Wen Jiabao's visit to Poland in April 2012, during which he presented a new strategy towards Central and Eastern Europe ('12 Measures') and launched the 16+1 format – annual summits of prime ministers from China and 16 Central and Eastern European countries, as well as lower-level meetings using the same formula. Currently, bilateral relations are undergoing a process of institutionalization. The multiplicity of mechanisms makes Sino-Polish cooperation comprehensive and multidimensional.

Relations are carried out on at least three levels. The first level is bilateral and includes both central platforms (e.g., annual strategic dialogue, annual inter-governmental committee dialogue, bi-annual prime ministers summit, etc.) and self-governmental/local platforms (e.g., annual Poland-China Regional Forums<sup>3</sup> as a platform for contacts between local governments, entrepreneurs, etc.; partnership agreements between regions and cities; local governments' liaison offices in China, etc.). The second is the sub-regional level, mainly under the framework of the 16+1 summits (as another channel for contacts with Chinese leaders) and lower level meetings in this formula, which cover various areas of cooperation (e.g., local leaders meetings, investment forums, think-tank summits, etc.). Finally, the third dimension is at the EU level, mainly EU-China summits and sectorial dialogues.

For Poland's China policy, local cooperation between provinces, cities, counties, and towns has recently gained importance, as it is perceived in Poland as a step in the right direction for real implementation of what is otherwise a vague 'strategic partnership' slogan. While the central level engages the Chinese authorities and business circles by signalling that Poland is a country worth cooperating with, the real cooperation takes place on the lower, local level. Regions know better the needs of their 'small homelands'—including their strengths and local business characteristics—and can easily identify potential areas of cooperation. Therefore, cooperation between local governments seems to be an effective way to implement Poland's China policy goals.

1 Poland-China diplomatic ties were established on 7 October 1949.

2 It is the 7th strategic partnership in the European Union, 1st in the Central and Eastern Europe and the 2nd under the framework of 16+1 format.

3 The first forum was held in Gdańsk (Poland) in April 2013, the second in Guangzhou (China) in June 2014, while the third in Łódź (Poland) in June 2015.

## Priorities of Poland's China policy

Officially, Poland has not adopted a specific document or strategy regarding its foreign policy towards China. Nevertheless, China was identified as important in terms of developing relations with Asia in a March 2012 speech by Minister of Foreign Affairs Radosław Sikorski, which outlined the priorities of Polish foreign policy for 2012-2016. The role of China was also highlighted in two exposes by Minister of Foreign Affairs Grzegorz Schetyna in a November 2014 and in a April 2015, in which he noted that the Polish economy is highly focused on Europe (which accounts for 80 percent of Polish trade) and is therefore particularly vulnerable to European economic cycles. Bearing in mind the impending decrease of EU structural funds and the saturation of the European market, Schetyna explained that Poland should seek new markets and capital resources to maintain economic growth. In that sense, it should pay more attention to Asian countries, including China.

The aforementioned mechanisms and levels of cooperation as well as new institutions devoted exclusively to China are signs of the PRC's importance in Poland's foreign strategy. New institutions and mechanisms include: the 'Go China' program<sup>4</sup>; the Center for Polish-Chinese Economic Cooperation within the Polish Information and Investments Agency<sup>5</sup>; a new post in the Polish Embassy in Beijing-Representative of the Ministry of Agriculture and Rural Development; the Inter-Ministerial Committee for Coordination of the Polish-Chinese Strategic Partnership Development; the Working Group on Poland-China Local Cooperation within the Ministry of Infrastructure and Development, etc.

Political and economic goals are the two main priorities in Poland's relations with China. Poland's political goals are to maintain regular and intensive political dialogue with China, which is considered as a prerequisite (or tool) for enhancing economic cooperation—which is the primary objective. China gained special prominence in Polish foreign economic policy not only due to its huge market and the growing interest of Chinese enterprises to invest abroad, but also because of the huge trade deficit (1:10) that needs to be narrowed. Therefore, Poland's economic goals in cooperation with China are to expand Polish exports to China (e.g. agricultural products, food, luxury items such as jewellery, amber and alcoholic beverages, safety equipment for mining, etc.), but not to limit imports from the PRC (more than 50 percent of imports from China are high-tech components for Chinese, Korean and Japanese plants located in Poland). Poland also seeks to attract Chinese investments (mainly greenfield and brownfield) to Poland, increase Polish investments in China and support Polish entrepreneurs in their business interests in the PRC.

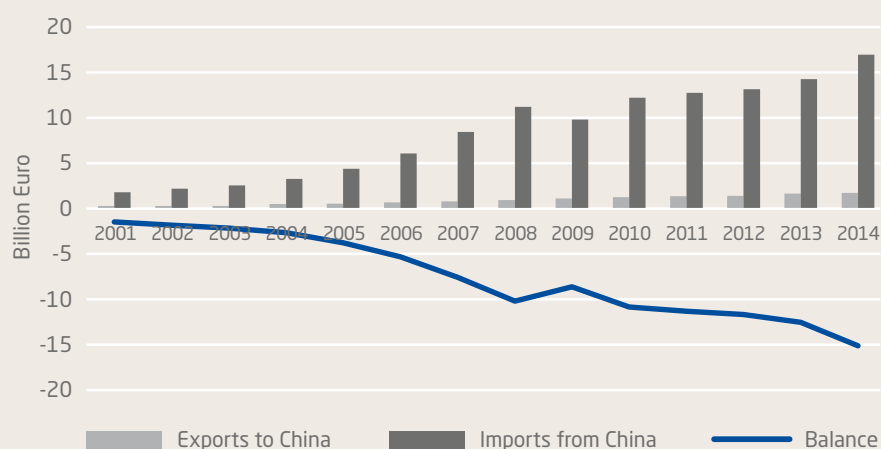
4 'Go China' is a web portal to encourage Polish entrepreneurs to develop business relations with Chinese partners. It was initiated by the Ministry of Economy & the Polish Information and Investments Agency (PAIIIZ). The program is officially promoted as a response to China's 'go global' strategy. See more: [www.gochina.gov.pl](http://www.gochina.gov.pl)

5 The Center for Polish-Chinese Economic Cooperation is the only such body in PAIIIZ dedicated to one country.

For Poland, the 'strategic partnership' with China is related mainly to economic goals. The partnership declaration has been signed at the highest level, by the presidents of the two countries, and Poland treats this document as a political umbrella, signalling to Chinese (local) authorities as well as Chinese businesses that it is worth launching cooperation with Poland. Still the economic results are not completely satisfactory, even though in 2013 Poland recorded a 17 percent increase in exports to China, and a 6 percent increase in imports. In that sense, the declaration should be seen as a long-term investment.

What is more, for Poland 'strategic partnership' also means that an open and sincere dialogue on sensitive issues might be possible and that Poland is eager to share with China its experience in successful transformation.

**Figure 1:**  
Poland's trade  
relations with China  
2001-2014



Source: UN Comtrade

## China's rationales

Chinese objectives in relations with Poland might be divided into three groups: economic, 'transformational', and political.

Poland seems to be a good destination for the further implementation of China's 'going out' strategy. It is apparent that China would like to secure market access for Chinese products. Further, China wants to locate its investments (mainly M&A) to gain access to production bases, technology and management resources. Beijing is also interested in setting up production and distribution centres as a way to circumvent the EU's trade barriers—such as antidumping procedures or high import tariffs—and decrease product prices through cheaper transportation costs. As the biggest Central and Eastern European country (also in the 16+1 format), characterized by political and economic stability, with a cheap but well-educated labour force and a stable banking and financial system, Poland aspires to become a hub for China's economic presence in Europe. For instance, Poland would like to be a part of China's Silk Road concept (both the Economic Belt and the Maritime Silk Road) and is interested in setting up multimodal logistics and distribution centres for China's transport links with Europe.

Furthermore, Poland promotes itself as a good place for Chinese investments. Among the incentives it provides are 14 special economic zones (SEZs) that offer state aid granted in the form of income tax exemptions for new or job-creating investments. Success stories of Korean and Japanese investments (most of them are located in SEZs) are being used to attract Chinese companies. Ultimately, China has responded positively to Polish initiatives and efforts for enhancing relations – for example, the ‘strategic partnership’ declaration was signed after mutual probing and positive signals from Warsaw to Beijing that Poland is ready for strengthening relations.

‘Transformational’ goals are to gain knowledge about the process of Poland’s economic, social and political transformation in the 1990s. It seems that the reason is to use these experiences to inform China’s ongoing process of economic and social change. The interest is especially visible on the local-level, as China’s local governments are becoming more responsible in developing China’s transformation, narrowing the income gap and improving living standards. Delegations from China are coming to Poland with specific questions about, for example, how to develop the service sector and a social security system (medical care, service for the elderly, pension schemes), urbanization solutions, taxation service, environmental protection, local transport, local level budget management or even water and sewage management.

The last group of goals is related to the Chinese understanding of the ‘strategic partnership’ slogan. It seems that for China, this buzzword also means that Poland is or should become an important ally of China in the EU. Beijing is trying to exert pressure on Poland to support its efforts to grant the PRC market economy status and lift the arms embargo. Moreover, for China, the ‘strategic partnership’ means that sensitive issues such as human rights should not be raised and discussed. Poland, which is aware that as a single state it might have problems in exerting pressure on China, mainly uses EU forums to discuss human rights issues with Beijing.

## Challenges and problems

Despite the reinvigoration of bilateral ties, there are substantial challenges in Sino-Polish relations. Generally, different perceptions of the ‘strategic partnership’ might undermine real strategic cooperation. The partnership is still only a symbol and Poland is waiting for tangible results of this ‘strategic’ cooperation. A significant example is the slow dynamic in the bilateral political dialogue over the last year and a half (mainly high-level visits)<sup>6</sup> which have been overshadowed by a huge number of meetings under the 16+1 framework.

The most important problem for Poland is the huge negative trade balance, which currently is even more harmful for Poland, as in early 2014 China suspended Polish pork imports after it was revealed that two wild boars in Poland had died from African swine fever. Despite evidence that Polish pork is safe and the Polish Minister of Agriculture’s visit to China to convince Beijing to lift the ban or, at least, reduce the scope of the decree (e.g., only to the region where the disease was recorded), the restrictions remain in force.

<sup>6</sup> There is a significant acceleration of Sino-Polish political dialogue in the second half of the 2015, with Minister G. Schetyna’s visit to China, the opening ceremony of Polish consulate in Chengdu, the first meeting the Polish-China Intergovernmental Committee, etc.

Second, there is a huge asymmetry in market access. The biggest problems are barriers for agricultural products (phytosanitary restrictions, certificates). This conundrum is becoming even more harmful after Russia imposed sanctions on Polish food in early August 2014 because Poland would like to redirect its exports, mainly agriculture products, from Russian to Asian markets, including China. What is more, Poland has no access to public procurements in China, while Chinese companies eagerly and increasingly bid for public tenders in Poland – recently they have been very active in the energy sector. For example, China's Pinggao Group – a subsidiary of the State Grid Corporation of China – won three tenders from Poland's PSE to build electric transmission lines. The same company took part in a tender for the construction of an electric station in the Opole power plant, but eventually was excluded due to some procedural mistakes. Meanwhile, Shanghai Electric competed in a PGE tender to construct of a new power block at Turów power plant, a contract which was eventually awarded to a Japanese company. What is more, in 2014 the China-CEE Investment Cooperation Fund<sup>7</sup> announced a finalization of three investments worth USD 84 million for Polish wind energy projects.

The volume of Chinese investments in Poland is still low. Moreover, Poland is interested in greenfield investments, as they create new jobs, lead to technology transfers, accelerate regional development and raise Polish exports, while China prefers M&A to acquire existing plants with pre-existing infrastructure and management resources. Still, there are no flagship, success-story Chinese investments to speak of in Poland. Most large-scale FDI projects are done by Korean and Japanese companies whose projects in manufacturing, industry, R&D and high-tech sectors (not logistics, distribution, sales or shopping centres) are more compatible with Polish interests.

Another problem is the fact that relations, to some extent, are one-way, which means that Chinese initiatives and offers are based purely on Chinese interests, and Poland has problems with reciprocity. Chinese delegations eagerly come to Poland, asking specific questions. Generally, the Chinese side does not propose concrete solutions that are beneficial for Poland. The best example for this kind of 'one-way relationship', with so-far only limited benefits for Poland, is the direct Łódź-Chengdu and Warsaw-Suzhou railway cargo connections opened in 2013 (perceived as a part of the new Silk Road). Both are still used mostly to import products from China, with trains returning almost empty. Among the reasons for this is the fact that China subsidizes these railways connections to Europe to dispatch its overcapacities and secure its own exports. Moreover, Russian sanctions imposed on some Polish agricultural products cover transit via the Russian Federation. Nevertheless, in August 2015, the first cargo trains with Polish alcoholic and non-alcoholic beverages and sweets (goods that are not sanctioned by Russia) were dispatched from Łódź to Chengdu and Xiamen.

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7 The Fund was declared by prime minister Wen Jiabao in 2012 at the first 16+1 summit in Warsaw. In his '12 Measures' – a list of Chinese initiative to reinvigorate relations with CEE countries there was a proposal to establish an investment fund worth – at the initial stage – USD 500 million. At the third 16+1 summit in Belgrade in December 2014, Li Keqiang declared to launch the second phase of the fund worth USD 1 billion. The fund is created by China Exim Bank and its aim is to invest in CEE countries in infrastructure and industrial projects. Hungary and Poland are among the founders of the Fund.

## Conclusions

Despite the reinvigoration and institutionalisation of bilateral ties, the 'strategic partnership' is a framework that remains to be filled with real content. It seems that Poland should be more active, especially in proposing particular cooperation projects and disseminating knowledge about China and Sino-Polish relations domestically. Business circles are still generally unaware of the existing transport connections with China, or about the scale of the Chinese market. It is worth exploiting the few success stories that do exist. Łódź is a good bottom-up example – a strong push from the local business resulted not only in a liaison office in Chengdu but also a decision to open fully-fledged Polish consulate there. What is more, Poland's central-level authorities should pay more attention to coordinating their own activities on China, while taking care of the smooth functioning of existing mechanisms, and focusing on reciprocity.

## 11

## Portugal-China relations: A 'great leap forward' in the new millennium

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(April 2015)

Although the interaction between Portugal and the People's Republic of China (PRC) dates back to the 16th century, when Portuguese navigators firstly arrived to the south coast of China and settled in Macao, official relations between these two countries began only in 1979. After the establishment of diplomatic relations, contacts between Portugal and the PRC were mainly dominated by the Macao issue, as the agreement signed in 1979 established that the status of the territory could be subject to negotiations. Resolving the Macao issue would ultimately dominate the bilateral relationship for two decades and set the tone for strengthened relations in the form of a global strategic partnership. Today, Portugal is increasingly becoming a platform for Chinese companies wishing both to enter Europe markets and expand into Portuguese-speaking Africa and Latin America.

### **The Macao handover as a stepping-stone to strengthened political relations**

The major milestones in the handover process of Macao to Chinese sovereignty were the visit of the Portuguese President Ramalho Eanes to Beijing in May 1985 (during which the Chinese side expressed, for the first time, willingness to establish negotiations with that purpose); the signing of a Joint Declaration, in April 1987; and the transition process, which ended with the handover ceremony in December 1999.

The successful negotiations of the Macao handover and the overall conduct of the process gave Portugal a privileged access to the Chinese authorities, who noted that the smooth settlement of the Macao issue could serve as an example for other nations to tackle outstanding historical disputes. Given the importance of the Taiwan issue to Beijing, it is natural that the Chinese authorities consider the Macao case and the continuing friendly and relatively intense relations with Portugal as an important showcase. Macao is also often framed in contrast to Hong Kong, whose transition to China was marked by friction with the United Kingdom and a political landscape in which active pro-democracy movements continue to play an important role (of which the 2014 protests are a good illustration).

After the successful handover process, which had concentrated all the attention of Sino-Portuguese relations, a new chapter was opened between the two countries, characterized by a more fluid and comprehensive relationship with frequent and continuous exchanges. On average, bilateral visits at the level of Head of State, Prime Minister and Minister of Foreign Affairs take place roughly once a year.

### **The establishment of a 'global strategic partnership'**

In January 2005, in the context of the celebrations of the 25th anniversary of the establishment of diplomatic relations between Portugal and the PRC, the Portuguese President Jorge Sampaio was invited to a state visit to China. When Prime Minister



Wen Jiabao visited Lisbon in December of the same year, the two countries agreed to establish a 'global strategic partnership.' Five years later, during Hu Jintao's visit to Portugal in 2010, both sides signed further cooperation agreements in culture, technology, tourism, electricity, telecommunications and finance and announced joint efforts to deepen the comprehensive strategic partnership.

The establishment of this partnership was an important milestone in Sino-Portuguese relations. Bilateral relations have progressed significantly, and nowadays China considers Portugal to be a trustworthy strategic partner within the European Union. A first explanation of the importance of Portugal to China is the intention to demonstrate the success of the transition of Macao, which has been consistently praised by Chinese authorities. A second aspect is that Portugal is part of a linguistic universe of 200 million people, which integrates increasingly important countries, such as Brazil, Mozambique and Angola. The PRC considers Portugal a relevant actor with a significant role to play in economic and commercial relations with Africa, particularly with Portuguese speaking countries. This role may be most useful as China's economic interests in Africa have increased markedly and Beijing seems to have developed a strategic vision for its relationship with the African continent. A third factor might be that there is already quite extensive experience of high-level contacts between the two countries and a positive memory of those contacts.

During 2014, marking the celebration of 35 years of diplomatic relations, and 15 years of the handover of Macao to the Chinese administration the Sino-Portuguese relationship strengthened further. Portuguese President Aníbal Cavaco Silva visited Shanghai, Beijing and Macao in May, along with a business mission that included companies from a variety of sectors, ranging from banking to energy and wine. In July, the deputy Prime Minister Paulo Portas also visited the country with an entourage of one hundred businessmen.

### **Growing trade and booming Chinese investment**

Economic relations with China were very limited in the past and mostly channelled through Macao. Since Portugal has been designated as a 'strategic partner' of China in 2005, economic relations between the two countries improved. Portuguese exports to China have evolved quite well; they rose from 0.29 percent of the country's total exports in 2002 to 1.4 percent in 2013, with China rising from the 28th to the 12th ranked market for Portuguese exports. During the same period, imports rose from 0.81 percent to 2.4 percent, making China the 9th biggest exporter to Portugal.

The balance of trade has traditionally been unfavourable to Portugal. However, in 2012, due to the decrease in imports, but above all because of significant export growth, the balance, although negative, was much lower than in previous years (the coverage ratio reached 56 percent). Between 2006 and 2013, the average annual growth rate for exports was more than twice that of imports (17.4 percent vs. 8.5 percent).

**Table 1:**  
**Portugal's trade**  
**relations with China**  
(in thousand Euros)

	2006	2007	2008	2009	2010	2011	2012	2013
Exports	213,839	181,136	184,018	221,818	235,405	396,587	777,968	657,660
Imports	773,203	1,063,431	1,342,004	1,114,669	1,576,299	1,526,005	1,391,311	1,370,360
Balance	-559,364	-882,296	-1,157,987	-892,850	-1,340,894	-1,129,419	-613,343	-712,700
Coverage ratio	27.7%	17.0%	13.7%	19.9%	14.9%	26.0%	55.9%	48.0%

Source: Portugal Statistics

The majority of exports to China are related to vehicles and other transport equipment. Here, the factory of the German Volkswagen Group in Portugal, Autoeuropa, plays a significant role. From China, Portugal imports mainly machinery, metals, chemicals and clothing.

In the area of investment, although it had been hardly noticeable for many decades, there are also signs of a strong upward trend. In recent years, Chinese investment in Portugal has increased immensely. According to the Bank of Portugal, from 2009 to 2012, China occupied only a modest place in the ranking of foreign investment (39th). However, in 2013, it already ranked 12th. The preferred form of Chinese investment in Portugal is mergers and acquisitions (M&As). Greenfield or brownfield foreign direct investment (FDI) is not very frequent.

The substantial growth of Chinese investment in Portugal stems mainly from large Chinese state-owned enterprises which have invested billions in Portuguese companies. The biggest-ever acquisition by a Chinese company in Europe was a stake in the Portuguese public power company *Energia de Portugal* (EDP). China Three Gorges (CTG) paid a total of EUR 2.7 billion – more than a quarter of total Chinese investment in Europe in 2011 – for 21.35 percent of the company (making it thus the biggest shareholder). The acquisition by CTG was a starting point for a strategic type of Chinese investment in Portugal. For the first time a Chinese state company has invested in a strategic sector of the Portuguese economy.

Following the acquisition of EDP, in 2012, State Grid Corporation of China (SGCC) made a strategic acquisition (of 25 percent) in the Portuguese national power grid *Redes Energéticas Nacionais* (REN), for nearly EUR 387 million. Other companies have entered the Portuguese market place, mainly seeking investment opportunities in energy and environment. It is reasonable to assume that, if the opportunity arises, the Portuguese government would also allow more Chinese investment in other strategic sectors of its economy, such as banking, telecommunications, or transport. In fact, in early 2014, the private consortium Fosun, bought 80 percent of *Caixa Seguros*, the insurance wing of the bank *Caixa Geral de Depósitos*, for more than EUR 1 billion. China continues to seek opportunities in privatization processes (such as the sale of the controlling stake of the national airline TAP) that emerged after the economic and financial crisis of 2008 and created a strong need for adjustment in Portugal.

Nonetheless, its increasing presence in Portugal is just one element of a much broader economic strategy of China. Portuguese decision-makers seem to lack a plan to deal with China's sudden interest and (often hidden) agenda. Portugal therefore might face several risks: (1) in economic terms, with several strategic sectors being

controlled, ultimately, by the same entity – the Chinese State; (2) from a political point of view, the growing investment and influence of China in Portugal have implications for the management of relations between the European Union and China. Some say that China seeks to avoid a cohesive European front that would negotiate and propose a set of rules in EU-China bilateral relations. For China, therefore, the best strategy would be to divide and foster a divergence of interests among the various European countries. A coordinated strategy within the European Union, with an integrated view to dealing with this issue, might be needed, especially regarding the investment of state-owned enterprises in strategic sectors. Today, Portugal is in an asymmetric bilateral relationship, with a weakened negotiating position. Although there is growing Portuguese investment in China, the volume is still very low compared with that of China in Portugal.

### **Portugal as a bridge for Chinese companies and investors to other markets**

The geographical situation of Portugal, which can enhance China's cooperation and exchanges with the EU, as well as the special relationship and the strong presence of Portuguese companies in Africa and Latin America, particularly in the Portuguese-speaking countries, are factors that make Portugal an attractive destination for Chinese investment and trade, operating largely as a bridge between Asia, Africa and Latin America. An important element of this bridging function is the *Forum for Economic and Commercial Cooperation* between China and the Portuguese-speaking countries established in 2002. This forum bundles China's attention with regard to a set of countries in which China's main trading partners were Brazil and Angola.

The Chinese interest in EDP and REN (and TAP, which did not materialize in substantial Chinese investment) is symptomatic for China's interest in establishing platforms to gain access to other countries in Africa and Latin America. TAP could have served as a logistics platform for the Atlantic, Africa, Brazil and other destinations in Latin America. With the help of their investments in EDP and REN, Chinese companies in particular aim to gain access to Africa, where Portuguese companies can draw on extensive experience and accordingly have certain advantages.

Beyond strategic investments, Portugal has also become attractive for Chinese citizens because of the Golden Residence Permit programme. Of the 1,564 'Golden Visas' issued by Portugal since they were introduced in October 2012, 80 percent were granted to Chinese nationals, allowing them to reside in Portugal and move within Schengen countries without a visa, for short periods of time, in exchange for investment of at least half a million Euros (real estate), or of one million Euros minimum in capital, or creating 10 jobs in Portugal.

Ultimately, at this stage in the bilateral relationship, Portugal is increasingly attractive to China as a way of facilitating a range economic objectives: accessing new markets, expanding globally and, most importantly, guaranteeing the supply of critical raw materials and sources of energy

## 12

## Romania and China: Rekindling the special relationship?

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(April 2015)

Since the early 2000s, Chinese foreign policy has sought intense, active engagement with Central and Eastern Europe (CEE) at the bilateral and multilateral levels – i.e. the China-Central and Eastern Europe Forum (16+1 format), a Chinese-driven policy instrument.<sup>1</sup> Albeit more prudently than some of its neighbours, Romania has engaged China at both of these levels with some considerable success. In 2014 Romania was China's fifth largest CEE economic partner, while China was Romania's largest Asian trading partner and largest source of imports.<sup>2</sup>

### From Communist Special Relationship to Economic Pragmatism

The basis for the 65-year long (2014) Romanian-Chinese bilateral relationship stems from their close cooperation in opposing and resisting Moscow during the 1950s and 1960s. This special relationship manifested in the informal Chinese security guarantees for Romania's territorial integrity and political security in the 1960s, when both countries' relations with Moscow were deteriorating. As China moved closer to the U.S. in the 1970s and 1980s, relations with Romania became estranged, especially with Romanian-Western relations coming to a standstill during that same period.

After the 1989 democratic Romanian Revolution, successive Romanian governments actively sought to maintain a close economic relationship with China, seen as a market for Romanian products and a source of foreign direct investments (FDI). However, with Romanian priorities in the 1990s steering towards the strategic goals of developing a functional democratic regime and a liberal, market economy that would facilitate its accession to NATO and the EU, and the worsening Romanian economic situation in the 1990s, the Chinese interest in Romanian markets and the bilateral political relation become increasingly marginal. The Romanian political rhetoric during the Cold War period concerning the special Sino-Romanian relationship was slowly abandoned in the mid-1990s and was replaced by a liberal, democratic discourse towards China that endures today, albeit in a significantly toned-down version.

It was not until the mid- and late-2000s, when China started to implement its openness to the West policy, and in the context of the growing negative effects of the economic crisis and China's growing role in the international system, that the Romanian authorities re-evaluated the relationship with China. It is uncertain to what degree the current China strategy of the Ministry of Foreign Affairs (MFA) is a truly

1 Beijing is adamant on maintaining its agenda-setting role within the newly institutionalized format and has been reluctant regarding the EU's interest in becoming a member, or even an observer of the 16+1 format – an aspect Romania is not entirely in agreement with.

2 National Bank of Romania and the National Statistical Institute (2014) 'Investitiile Straine Directe in Romania in anul 2013' [FDI in Romania in 2013], <http://www.bnr.ro/Investitiile-straine-directe-%28ISD%29-in-Romania-3174.aspx>, p. 12.

bipartisan one, given the divide between the Romanian right- and left-wing parties. The liberal-democrat governments of the 1990s and the mid- and late-2000s focused on promoting economic relations with the West, whereas social-democrat governments tended to be preoccupied about relations with China. For instance, it was under the social-democrat government in early-2000s that Romania signed the Economic Cooperation Agreements with China. Moreover, after signing the Enhanced Cooperation Partnership (in 2013), the current social-democrat government sought to expand trade and cooperation with China in order to correct its huge bilateral trade deficit (EUR 745 million in 2014).<sup>3</sup> More recently (March 2015), the Chinese authorities have expressed readiness and willingness to engage bilaterally with all Romanian political parties, in order to bridge this apparent divide, but also to ensure greater stability for future Sino-Romanian economic and investment ties.

## Romania's interests for engaging with China

According to the Romanian MFA, Romania's interests for engaging with China fall into two categories:

### 1) *Strategic interests*

The Romanian stimulus for closer strategic engagement with China stems from the latter's ascending global great power status, its transformative role at regional and global levels, and its predominant role in the global economy. However, Romania continues to entertain prudent perceptions of China concerning: (a) an undesirable stronger Chinese leadership in the international system; (b) the Romanian preference to work with China through EU/European multilateral formats, rather than bilaterally; or (c) Romania's tendency to consider China as mainly an economic threat to the European community.<sup>4</sup>

The current Romanian rapprochement with China should be understood in the broader context and spirit of the American and Western European 'pivot' to Asia. In an effort to diversify their trade relations, Romanian interests are predominantly in favour of developing the bilateral and multilateral relations with China, but complementary to the EU-China trade and investment formats still under negotiation.

Moreover, Romania regards the Hu and Xi administrations' opening to the West policy and their economic development and cooperation agenda implemented through 16+1 format and the 'New Silk Road' (both the maritime and continental routes) as important strategic and economic opportunities for Romania. Indeed, Romania's MFA considers its engagement with both these Chinese formats to be of primary strategic importance for Romania's prospects of becoming a regional hub connecting the Chinese 'Silk Road Economic Belt' with the EU's Danube Strategy.

3 National Statistical Institute (2014) 'Anuarul Statistic National 2013' [National Annual Statistics 2013], p. 21.

4 According to the German Marshall Fund Transatlantic Trends 2013, <http://trends.gmfus.org/transatlantic-trends/>.

## 2) *Economic interests*

Romanian interests to engage with China are mainly economic. As a developing economy, especially after the economic crisis (late 2000s), Romania has been seeking to diversify its economic partners, products and, most importantly, sources of FDI by developing bilateral economic relations with China. Since the implementation of Hu Jintao's opening to the West strategy (currently deepened by Xi Jinping), Romanian-Chinese bilateral trade has tripled in value and volume since 2007, with an over 200 percent increase in bilateral trade since 2011 alone – from approximately USD 1.5 billion in 2011 to over USD 4 billion in 2014.<sup>5</sup>

In 2013, China announced a USD 10 billion investment fund for the 16 CEE countries available over the next decade. While this amount is certainly significant, it amounts to an annual average of approximately USD 62 million of Chinese FDI flowing into each of the 16 participating CEE countries (assuming an equal distribution). This is far too small an amount of FDI to be significant for the CEE economies. By comparison, China has already signed bilateral FDI contracts worth USD 8 billion with Romania covering the same period.<sup>6</sup> The 16+1 investment fund does not entail a steady growth of current Chinese FDI levels in these countries, suggesting the Chinese authorities may be seeking to stabilize, not necessarily increase their economic presence in the CEE economies. China's guiding principle – reciprocity – in economic development is potentially harmful to the CEE countries' economies: while there may not be any visible and immediate political strings attached to Chinese FDI in these countries, it does force them to accept greater market exposure to Chinese economic presence in exchange for a relatively small FDI contribution because they lack power to reciprocate in kind on the Chinese market.

Since 2012, Romania and China signed a number of significant investment contracts in priority industrial and economic sectors:

1) *Energy* – China is building reactors 3 and 4 of the Cernavoda nuclear power plant, with an overall investment of USD 6 billion over the next 10 years. Nuclearelectrica (nuclear power plant), Oltenia Energy Complex and Hunedoara Energy Complex (Rovinari, Deva), Tarnita-Lapusesti (hydroelectric power plant) and a wind power project in Constanta are among the Sino-Romanian joint-ventures signed/launched in 2012-2014. These investments represent priorities for Romania's energy sector as well as for Bucharest's pursuit of energy independence and the development of its energy-generation and regional energy-transportation capacity. They also represent priority areas for Chinese investment in Romanian energy infrastructure.<sup>7</sup> Moreover, with a number of these Romanian state-owned companies being programmed for public listing in the near future, the Romanian authorities are hoping to get Chinese investors further interested in them.

<sup>5</sup> The data is cross-checked against official data of the Romanian National Statistics Institute and the Chinese Customs data for 2011-2014.

<sup>6</sup> 'China announces 8 Bln Euros investments in Romania' Independent Balkan News Agency, 26 November 2013, <http://www.balkan.eu.com/china-announces-8-bln-euros-investments-romania/>.

<sup>7</sup> Remarks by Vice-Minister Zhu Li on the occasion of his visit to Bucharest, 2 March 2015.

2) *Infrastructure* – Romania is seeking to consolidate Chinese investment in infrastructure development in Romania: highways, railway infrastructure, and harbour and maritime infrastructure in Constanta,<sup>8</sup> all of which are covered by and priorities under the 2015 Romanian Transport Master-Plan. The Romanian interest in developing the harbour infrastructure in Constanta is extremely important in the context of connecting China's 'New Silk Road Economic Belt' to the EU Danube Strategy.

3) *Agriculture* – Supporting the agriculture sector is a priority area of economic development under the social-democrat government and, with the considerable support of European funds. Romanian agricultural output has been steadily growing since 2010.<sup>9</sup> Following the Sino-Romanian 2014 Cooperation Agreement on Agriculture, Romania is interested in increasing its agricultural exports on the rapidly-growing Chinese markets – livestock, cereal, dairy, meat products, wine, etc.

The need to consolidate a presence on Chinese markets is made pressing for CEE countries and Romania by their contracting economic relations with Russia, an important economic partner, in light of the economic sanctions mutually imposed by Moscow and Brussels in the context of the conflict in Ukraine. While the market expectations were that the slowdown in the CEE states' bilateral trade with Russia would be temporary, the decisions of the EU and the U.S. (March 2015) to extend the sanctions indefinitely and possibly impose additional measures could indicate a trend in the CEE countries' trade profiles, thus leading them to reorient most of the trade cuts with Russia towards China.

4) *Other fields*: Communication and IT (mainly Huawei and Lenovo), tourism and heavy industry (potentially attracting Chinese investments in bankrupt Oltchim), cultural exchanges, track-two diplomacy, etc. are also fields of interest for Romania in its relationship with China.

## China's interests for engaging Romania

Since Romania became an EU and NATO member, China has increasingly demonstrated interest in the country and, in 2015, has publicly spoken of a greater role for Romania in China's regional strategy. This is done to ensure:

1) *Access to the European market* – China regards Romania as a potential entry point and market for Chinese goods, a source of European high-tech, as well as a potential supporter/promoter (alongside other regional governments) of larger Chinese import quotas in the EU and of closer EU-China relations. However, to keep a low-profile, Beijing prefers to work through joint-ventures in Romania and other CEE states. As of 2013 there are as many as 11,000 Sino-Romanian joint-ventures registered in Romania. With all the visibility surrounding the China's enhanced presence in the region (some 700 Chinese companies regularly attend 16+1 format), China is only

8 These could possibly include Chinese offers (currently under evaluation) to purchase Chinese-made high-speed trains as well as to build an industrial park in Agigea, next to Constanta.

9 According to the Romanian Trade and Industry Chamber's 2014 Agriculture statistical data, <http://ccir.ro/wp-content/uploads/2014/11/statistica-agricultura.pdf>.

Romania's 29th largest investor, investing under USD 150-200 million annually (roughly 0.2 percent of total FDI flowing into Romania in 2013 and less than 1 percent of Romania's GDP), following disproportionately behind Western states in general and, more importantly, behind relatively minor economic actors like Poland, Hungary or the Czech Republic.<sup>10</sup>

2) *Access to the expanding Romanian market* – Romania has the fastest growing economy in CEE (with the exception of Poland in 2008-2013), with average annual growth rates of 8 percent between 2000-2008 and 2.5-3 percent since 2011.<sup>11</sup>

3) *Access to EU funds for new member states* – Romania has access to significant funds for economic areas in which China is interested – i.e. infrastructure construction/modernization, services (banking, medical, energy efficiency, and education), etc. Due to Romanian prudence and EU restrictive regulations for allocating structural and cohesion funds, bilateral contracts are negotiated and implemented at a very slow pace.<sup>12</sup> The Chinese are suspecting Romania of stalling the process, of discriminatory and non-transparent practices, etc. These kinds of problems seem to be emerging in China's relations with all governments in the region. In interviews with Chinese officials and scholars in 2009 and 2014/5 respectively, they invoked a similar set of issues arising in relation to CEE countries, particularly Poland, the Czech Republic and Romania: high suspicion of Chinese companies, a tendency to delay visas for Chinese entrepreneurs, over-emphasis on EU regulations as a means of masking a preference for domestic or Western companies implementing contracts, discriminatory conditions on contracts meant to limit access of Chinese companies to said contracts, unstable fiscal policies, etc.

4) *Access to CEE energy markets* – Romania is the only CEE country with viable chances at energy independence. China is interested in participating in and funding energy infrastructure construction in Romania (both in fossil fuel and renewables). Of late, shale gas<sup>13</sup> is of growing interest to China, which has expressed a desire to participate in Romanian tenders. However, the Romanian government seemed more inclined to continue its collaboration with Exxon, Chevron<sup>14</sup> and OMV, who are exploring Romania's shale gas reserves.

5) *Building political and economic goodwill for implementing the Chinese 'One Belt, One Road'* – Romania is important in this respect because it connects the land and maritime routes of China's 'silk road' projects. In particular, through its position on the Danube, Romania can serve to connect the western-most point of the 'Silk Road Economic Belt' with the heart of Western Europe.

10 'Investitiile Straine Directe in Romania in anul 2013', p. 12.

11 Ministry of Finance (2015) 'Raport privind Situatia Macroeconomica pe anul 2014 si proiectia acesteia pe anii 2015-2017' [Report concerning Romania's Macroeconomic Situation and Projections for 2015-2017], p. 7. The data is cross-referenced with IMF and EU data.

12 Romania's successive procedures of contestation of public procurement contracts, long attribution processes, average project implementation periods of a minimum of 10 years, poor technical standards, lack of transparency, etc. act as a serious obstacle in relations with China. See International Monetary Fund (2015) 'IMF Country Report No. 15/80', p. 41.

13 U.S. Energy Information Administration (2013) 'Technically Recoverable Shale Oil and Shale Gas Resources: An Assessment of 137 Shale Formations in 41 Countries Outside the United States', Washington D.C.: EIA, X-1/24.

14 Withdrew from Romania (and much of the CEE region) in early 2015.



6) *Monitoring the NATO and U.S. military facilities in Romania* – With Romania being an important NATO member, which hosts not only two American military bases, but also the Deveselu ballistic missile defence site and, more recently, a NATO command-and-control centre with pre-positioned military equipment, China is increasingly interested in following the developments of Romania's security role in the region. Perceiving Romania as a basis for NATO and U.S. projection of military power, China is paying special attention to the implications of Romania's more prominent regional security role for its own access in the region and for its own interests.

## Potential sources of friction

While Sino-Romanian economic relations are steadily developing, political relations are lagging behind. There are concerns that these increased economic exchanges will put China in a position to exert political leverage on Romania, but these concerns are generally dismissed by Romanian governments. Romania's MFA has repeatedly declared stronger economic engagements with China will not lead to changes in or conditioning of Romania's 'one China policy'; nor will they affect Romania's support for the EU arms embargo against China.

However, Romania also engaged economically with Taiwan in 2013-2014. In 2013, the Romanian Parliament sent an official delegation to Taiwan to negotiate an IT cooperation agreement – an incident that caused quite a stir in China, which requested that the Romanian ambassador offer clarifications. Despite the reaffirmation of its commitment to the 'one China policy', the Romanian government refused to make more public statements on the matter and emphasized its business agreement with Taiwan was not a matter of inter-state relations. Even so, the incident exposed how sensitive the Chinese are to 'one China policy' and how sanctimonious Beijing may be in its expectations that Romania put aside its democratic and liberal political principles in its dealings with China.

While not going so far as to actually refuse to meet with the Dalai Lama, as other states have done, the Romanian government at times seems receptive to Chinese political leverage, even at these relatively low levels. In 2014, the Romanian Prime Minister travelled to China during the Chinese government's violent repelling of Hong Kong protests, suggesting Bucharest tends to focus on pragmatic goals and tone down the human rights and democratic standards discourse in relations with China.

Another source of friction for Sino-Romanian relations proved to be Romania's visa policy. China is unsatisfied of what it considers a discriminatory visa-issuing policy towards Chinese citizens and investors, Romania issuing 10-times fewer visas for Chinese citizens (11,000 in 2013-2014) than other CEE countries (e.g. Hungary's 115,000 visas in 2013-2014).

The Sino-Romanian relationship is still in the early stages of rebuilding and there are still important obstacles to overcome. Unlike in the Cold War period, when the relationship acquired a security dimension – all-too important for Romania in all its dealings with great powers – current Sino-Romanian relations are severely lacking the prospect of such a security dimension. To the extent that Romania continues to perceive a strategic rapprochement between China and Russia (the latter of which it collectively considers an aggressor power in the Georgian (2008) and ongoing

Ukrainian conflicts), Bucharest's appetite for further engagement with China will considerably diminish.

Cyber security has recently become a concern in bilateral relations, too. In line with the Western (EU and NATO Cyber Security Strategies), Romania's 2014 *Cyber Security Strategy* lists China as a source of potential cyber security challenges for the Romanian critical infrastructure grid and other nationally-secured sites (banking, corporate and national personal databases, etc.).

In light of these arguments, Romanian engagement with China is still optimistically prudent and profoundly entrenched in a strong coordination with the U.S. and EU pivots to Asia. While Romanian exports to China have temporarily increased in 2013 and 2014 respectively, it is still uncertain whether they mark a sustainable trend in Sino-Romanian trade relations. The flight risk of Chinese FDI in Romania remains high and the exposure of the Romanian to Chinese markets due to enhancing economic cooperation is considerable without hope of reciprocation. Therefore, provided no major shifts occur in Romania's economic conditions, it is unlikely that Sino-Romanian relations will see a significant development in the short-term.

# Spain-China relations: Friends but not partners

13

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(April 2015)

The People's Republic of China (PRC) is the most relevant country for Spain in Asia and one of its key trading partners outside of the EU (fifth non-EU destination for Spanish exports and first non-EU origin of Spanish imports). In addition, China is the second largest foreign holder of Spanish sovereign debt and the stock of bilateral foreign direct investment has been increasing significantly since 2010.

Therefore, Madrid's strategy towards Beijing has been consistently focused on the economic arena and all other dimensions of the relationship have frequently been subordinated by successive Spanish administrations in order to reap the gains from a dynamic Chinese economy. Conversely, with some notable exceptions, the PRC has been much more attracted by the political weight of Spain inside the EU and in Latin America than by its economic potential. In addition, Beijing is well aware that Spanish companies are valuable partners for Chinese enterprises in areas such as financial services, tourism, telecommunications, and renewable energies; and also for those companies willing to disembark in Latin America. Consequently, although both countries lend importance to their bilateral relationship, as illustrated by their establishment of a comprehensive strategic partnership in 2005, they do so for different reasons.

The current official status (for both sides) of the relationship is a 'comprehensive strategic partnership' since a decade ago. Reaching this status was not merely symbolic, since it was accompanied by the signing of 16 bilateral agreements (some of the most relevant were an extradition treaty, an agreement to exchange cultural centres, and an agreement concerning civilian nuclear energy). In addition, bilateral relations have experienced across-the-board progress since the comprehensive strategic partnership was announced.

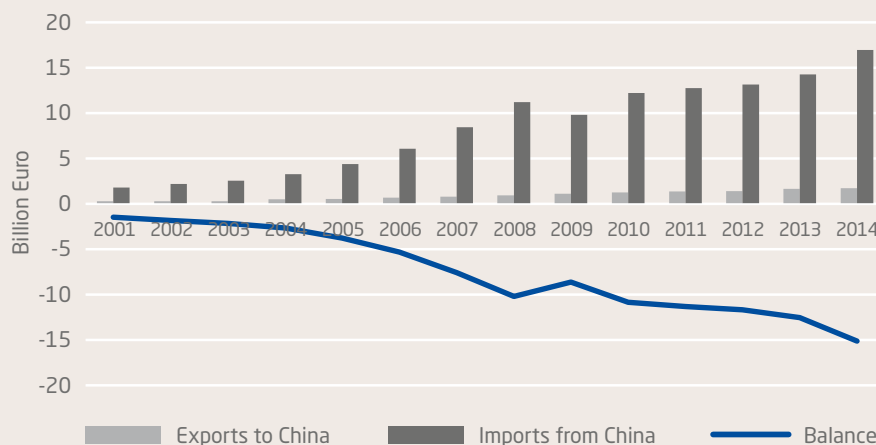
## **Lacklustre economic relations**

Despite enjoying significant trade contacts with China, between 1565 and 1815 through the Manila Galleon, the commercial presence of Spain in the Middle Kingdom became almost irrelevant. The economic links between Madrid and Beijing were not revived until the second half of the 1980s, when Spain began to offer tied loans to the PRC to facilitate the entrance of Spanish companies into China. In fact, the PRC was for a few years the main recipient of Spanish tied aid. Encouraged by this and other state-promoted instruments, and by the spectacular economic growth of China, an increasing number of Spanish companies have decided over the years to explore this huge Asian market.

Although Spain's exports to the PRC have increased almost eight fold since 2000 and last year set a new record of EUR 4.08 billion (Figure 1), in 2013 China was just the 11th destination of Spanish exports, with a meagre 1.7 percent of the country's total exports. These figures pale in comparison with Chinese exports to Spain, which

totalled EUR 19.7 billion in 2013, making China the country that enjoys the largest trade surplus with Spain. In fact, after three years of contraction, China's trade surplus with Spain is increasing again, much to the dismay of the Spanish authorities, who complain that the country's trade deficit with Beijing equals 64 percent of Spain's total trade deficit. Notwithstanding those figures, Spain is only the 7th trade partner of the PRC inside the EU.

**Figure 1:**  
Spain's trade relations  
with China 2001-2014



Source: UN Comtrade

Looking at the evolution of the trade balance, some positive trends can be highlighted: Spain's exports to China have double from EUR 2 to 4 billion between 2009 and 2014; China's exports to Spain have picked up again since 2013; and these two ascending flows are taking place at a pace that is allowing Spain to increase its trade coverage ratio with the PRC from 13 percent in 2009 to 20 percent in 2014. In addition, both Spain's exports to China and China's exports to Spain are well diversified. Spain's top four exports to the PRC in 2014 (automotive equipment, components and accessories; plastic raw material and industrial products; pharmaceuticals; and copper semi-finished goods) comprise only around 25 percent of Spain's total exports to this country. Similarly, the top four Chinese exports to Spain in 2014 (womenswear; telecommunications equipment; computer hardware; and footwear) amount to less than 30 percent of all the goods exported from the PRC to Spain.<sup>1</sup>

The bilateral flows of direct investment between Spain and China are less mature than their trade exchanges. Notwithstanding the rapid increase in investment flows between the two countries in the last few years, the volume is still modest and far away from its potential. According to Spain's official FDI statistics, leaving aside operations made through Hong Kong, the annual average of Spanish investment in China jumped from EUR 42 million in 2000-2005 to EUR 464 million between 2006 and 2012, peaking annually in 2010 at EUR 1.3 billion.<sup>2</sup> In 2013, Spanish foreign direct investment (FDI) in China did not even reach EUR 207 million, but climbed to almost EUR 480 million in the first nine months of 2014.

<sup>1</sup> State Secretariat for Commerce, Ministry of Economics and Competitiveness (<http://datacomex.comercio.es>).

<sup>2</sup> *ibid.*

Nevertheless, China is only the 14th destination for Spanish investment, receiving less than 1 percent of Spain's total outward FDI stock. Banking concentrates the biggest share by far of Spanish FDI to China, even if BBVA, one of the two biggest Spanish investors in China that includes a EUR 3 billion investment in the CITIC Group, has been withdrawing gradually from the Chinese banking system since October 2013.<sup>3</sup> The other top Spanish investor in China, Telefonica, which controlled almost 10 percent of Unicom in 2011, has also been divesting from China and now barely holds a 2.5 percent stake in China's second-largest mobile-phone carrier<sup>4</sup>.

By the end of 2011 China, for its part, had only accumulated investments worth EUR 77 million in Spain. Like other Southern European countries, Spain did not become attractive to Chinese investors until 2012, and in 2013 China's FDI stock in Spain climbed to EUR 520 million.<sup>5</sup> The purchase of a 20 percent equity stake in NH Hotel Group by the HNA Group in April 2013 for EUR 234 million was the largest operation.<sup>6</sup> This upward tendency has continued in 2014 and 2015 with such significant deals as the purchases by Wang Jialin of a landmark skyscraper in Madrid for EUR 265 million and of a 20 percent stake of the football club Atletico de Madrid for EUR 45 million.<sup>7</sup>

If we resort to more accurate and non-official datasets for assessing Chinese FDI in Europe from 2000 to 2014, such as the one developed by the Rhodium Group, the value of Chinese cumulative investment in Spain elevates to EUR 1.096 billion.<sup>8</sup> Despite this positive development, the stock of Chinese FDI in Spain is just around 0.15 percent of total foreign direct investment in Spain (USD 750 billion) and 2.3 percent of total Chinese FDI in the EU. According to those figures, Spain is merely the 9th favourite destination for Chinese direct investment in the EU.

Another source of Chinese investment to Spain, which is included neither in DataInVex nor in the dataset compiled by the Rhodium Group, are Chinese nationals who have received a Spanish golden visa.<sup>9</sup> Of the first 530 investors that benefited from this scheme from September 2013 to December 2014, 170 were from the PRC.<sup>10</sup>

3 <http://www.wsj.com/articles/spains-bbva-sells-4-9-stake-in-china-citic-bank-for-1-7-billion-1422010823>.

4 <http://uk.reuters.com/article/2014/11/10/uk-telefonica-china-unicom-hk-idUKKCN0IU1QL20141110>.

5 State Secretariat for Commerce, Ministry of Economics and Competitiveness (<http://datainvex.comercio.es/>).

6 <http://www.hotelnewsnow.com/Article/10011/NH-Hoteles-catches-lifelines-in-HNA-HPT-deals>.

7 <http://www.ft.com/intl/cms/s/0/687428ee-a076-11e4-8ad8-00144feab7de.html#axzz3hCSe0r53>.

8 Thilo Hanemann and Mikko Huotari (2015) Chinese FDI in Europe and Germany. Preparing for a New Era of Chinese Capital, Mercator Institute for China Studies & Rhodium Group, p. 15. Their dataset offers more comprehensive, detailed, and timely information than official datasets, thanks to their methodology based on aggregating information on individual transactions that meet the IMF's definition of FDI.

9 The Spanish government launched a golden visa scheme in September 2013 offering qualified Spanish residency in return for investing in Spanish real estate, business or treasury bonds. For an English translation of the law regulating that program see <http://www.exteriores.gob.es/Embajadas/ABUDHABI/es/VisadosVisas/Documents/LEY%20DE%20EMPREENDEDORES%20ENG%20.pdf>.

10 [http://economia.elpais.com/economia/2015/03/03/actualidad/1425405767\\_952265.html](http://economia.elpais.com/economia/2015/03/03/actualidad/1425405767_952265.html). [http://www.elconfidencialdigital.com/dinero/millonarios-conseguido-residencia-Espana-millones\\_0\\_2486751315.html](http://www.elconfidencialdigital.com/dinero/millonarios-conseguido-residencia-Espana-millones_0_2486751315.html).

Chinese investors have also taken interest in some assets of Spanish companies in other latitudes, mainly in Latin America<sup>11</sup>. Although just a few operations of this kind have materialized, some of them have been quite significant. Indeed, the most remarkable example was Sinopec's USD 7.1 billion investment in Repsol Brazil for a 40 percent stake.<sup>12</sup> The joint venture, valued at USD 17.8 billion overall, granted Repsol the funding to explore its very vast and coveted holdings in the subsalt area off Brazil. Also in Brazil, the State Grid Corporation of China has made substantial acquisitions from Spanish companies for USD 1.9 billion.<sup>13</sup> In Australia, China Communications Construction Company has recently bought a local builder controlled by ACS for AUD 1.15 billion.<sup>14</sup> All of these operations by Chinese state-owned companies dwarf Chinese acquisitions in Spain itself.

Much more relevant for the Spanish authorities is the Chinese position as the second biggest holder of Spanish treasury bonds. The exact share of Spanish debt in Chinese hands is not public, since the government stopped disclosing the origin of the foreign holders of Spanish public debt in August 2011.<sup>15</sup> However, Spain's Minister of Foreign Affairs, José Manuel García-Margallo, revealed in a debate on public television on 10 April 2014 that China holds 20 percent of Spanish foreign-owned debt.<sup>16</sup> This figure equates to around USD 68 billion, almost 10 percent of the total public debt of Spain. Most of that debt was bought in 2010 and 2011, during a period of the Eurozone crisis when Spain was in dire need of liquidity and regaining the trust of the markets. Three calls were made at that time from Moncloa Palace to Zhongnanhai asking China to buy Spain's treasury bonds, and Beijing answered those calls. This support was highly appreciated by Spanish leaders.

### **Close political understanding**

Francoist Spain and the PRC established diplomatic relations in 1973, when China was trying to win back as many diplomatic allies as possible away from Taiwan. At that time, the first priority of Spain's foreign policy was to be accepted by the other Western European countries as an equal. As such, Franco's regime agreed to recognize the PRC to follow the path taken by most European countries. It was not until the 1980s that Madrid began to develop an agenda with Beijing. Since the mid-1980s, Spain has followed a very consistent strategy towards the PRC grounded on fostering good political relations in order to promote economic opportunities for Spanish companies in China.

Regardless of the party in power, Spanish authorities are both among the most accommodating leaders in Europe with regard to Beijing's policies on Taiwan, Tibet and Xinjiang; and among the most willing to follow a discreet and patient approach when discussing human rights issues with China. For example, the Dalai Lama has

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11 Jiang Shixue (2011) 'China-Spain-Latin America Triangulation in a Chinese Perspective', *Análisis Real Instituto Elcano*, p. 4.

12 <http://www.wsj.com/articles/SB10001424052748703859204575525292369142622>.

13 <http://www.reuters.com/article/2012/05/29/us-state-grid-brazil-idUSBRE84S0C520120529>.  
<http://www.bloomberg.com/news/articles/2010-12-22/china-state-grid-completes-purchase-of-brazil-electricity-assets>.

14 <http://www.ft.com/intl/fastft/250151/chinas-ccci-buy-john-holland-1.15bn>.

15 This measure was taken to prevent eventual populist reactions against foreign acquisitions of Spanish public debt.

16 <http://www.elmundo.es/economia/2014/05/25/5381194b268e3ef6328b4572.html>.

never been received by any official authority in his five visits to Spain, and Spain was the first EU member state to send a representative of its Ministry of Foreign Affairs, its Head of Government, and its Head of State to China after the military suppression of the Tiananmen Movement. Spain's political elites considered that cooperating with China at this time of political uncertainty was the best way of strengthening the reformist faction of the CCP vis-à-vis the most reactionary groups that would benefit from isolation or from a confrontational approach by the West.

This is not just a cynical and instrumental approach to facilitate the entry of Spanish companies into the Chinese market at any cost. Rather, it is a strategy based on both deep understanding of the domestic implications surrounding the choices made by the Chinese authorities on those sensitive issues, and the belief that constructive engagement is more effective than confrontation in the long term to improve the rights of the Chinese population.<sup>17</sup> This stance is based on Spain's own experience: the prevalent interpretation of contemporary history among the leaders of the Spanish Socialist Workers' Party and the People's Party with regard to the evolution of Spain's interregional tensions; the role played by protracted foreign engagement in softening Franco's regime; and the benefits of pacted transitions with the elites of the previous regime to institute a democracy without suffering political or social unrest.

Spain has also been one of the most vocal advocates inside the EU for positions that benefit Chinese interests on political issues, such as lifting the arms embargo. Spain has repeatedly stated its full support for ending the arms embargo against China and even tried to raise this issue during its rotating presidency of the EU in the first half of 2010.<sup>18</sup>

Chinese authorities have reciprocated by labelling Spain as 'the best friend of China in Europe.' This and similar expressions of friendship have been aired recurrently by Chinese and Spanish officials since Wen Jiabao coined this term during an official visit to Spain in January 2009.<sup>19</sup> The contrast between this close political understanding and the lacklustre economic exchanges have been sarcastically underlined in Spain by many who complain that we may be friends, but we are not partners. In other words, sound political relations are not fuelling economic relations up to the expectations of the Spanish side.<sup>20</sup>

The Chinese authorities appreciate Spain's regular diplomatic support, but this should not obscure the fact that, on a number of occasions, this backing has not met the hopes of Beijing. Leaving aside decisions related with facilitating Chinese access

17 Three-time Spanish ambassador to China, Eugenio Bregolat, traces the origin of this policy to Spain's official reaction after the suppression of the Tiananmen Square movement. At that critical time, the Spanish government considered that keeping cooperation with China was the best way of strengthening the reformist faction of the CCP vis-à-vis the most reactionary groups that would benefit from isolation or from a confrontational approach by the West, see Eugenio Bregolat (2015) *The Second Chinese Revolution*. New York: Palgrave Macmillan, 214-216.

18 [http://www.chinadaily.com.cn/china/2010-01/29/content\\_9396856.htm](http://www.chinadaily.com.cn/china/2010-01/29/content_9396856.htm), <http://www.ft.com/cms/s/0/da31e8fc-0e8d-11d1-bd79-00144feabdc0.html#axzz3hfvlsrln>.

19 <http://www.expansion.com/2009/01/31/economia-politica/economia/1233393750.html>.

20 Fox and Godement question the economic benefits of having political relations with China for the EU member states. See John Fox and François Godement (2009) 'A Power Audit of EU-China Relations', London: ECFR In their analysis of Czech and Slovak China policies Fürst and Pleschová also depict a tenuous connection between their reaction against human rights violations in China and economic outcome. See Rudolf Fürst and Gabriela Pleschová (2010) 'Czech and Slovak Relations with China: Contenders for China's Favour', *Europe-Asia Studies*, 62(8), 1379-1380.

to European markets, an area in which Spain is exceptionally one of the EU countries that places the highest demands on Beijing, the Spanish government's lobbying is sometimes not enough to produce the outcomes that China would prefer. The above mentioned discussions to lift the arms embargo on China are a good example. Other times, Madrid even refrains from assisting China as actively as Beijing would like, for instance with regard to the attempts by the PRC to gain diplomatic recognition from Taiwan's allies in Central and South America, before reaching a diplomatic truce with the Ma Ying-jeou administration in 2008.

### **A half full glass**

It is obvious that the economic presence of Spain in China and Chinese FDI in Spain are not as significant as Spanish leaders and business elites would like. Along the same lines, Spain's diplomatic support may not be as available or as effective as Chinese leaders would hope. However, it can be argued that both China and Spain find that the mixed results they have achieved through their interaction in recent decades are good enough not to require a fundamental revision of the guiding principles of their bilateral relationship.

The handling of the crisis triggered by the arrest warrant for a number of former Chinese top leaders issued by a Spanish judge for alleged genocide against the people of Tibet was an illustrative example. Both governments followed a calm and low profile strategy in order to achieve the dismissal of charges without damaging Spain's business interests in China. That outcome paved the way for an official visit of Prime Minister Mariano Rajoy to China from 24 to 27 September 2014. This visit had an economic agenda, selling the recovery of the Spanish economy to Chinese investors and signing business deals worth about EUR 3.2 billion.<sup>21</sup>

To conclude, even if an abrupt shift in the relationship is not likely, it should be noted that Beijing is more comfortable than Madrid with the current state of the relationship and this situation will only accentuate if China's trade surplus with Spain continues to rise. Consequently, eventual pressures for change would seem more likely to come from Madrid than from Beijing.

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21 [http://elpais.com/elpais/2014/09/25/inenglish/1411632730\\_020200.html](http://elpais.com/elpais/2014/09/25/inenglish/1411632730_020200.html), <http://www.reuters.com/article/2014/09/25/us-china-spain-idUSKCN0HK19J20140925>.



# Sweden and China: Realities of trade promotion and human rights demotion

14

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## Background

On 9 May 1950, Sweden became the first Western country to establish diplomatic relations with the People's Republic of China.<sup>1</sup> As of today, relations between China and Sweden are more dynamic and interactive than they have ever been before. This phenomenon can be illustrated by the Chinese automotive manufacturing company Geely's acquisition of Sweden's largest car manufacturer Volvo Car Corporation. However, it is noteworthy that Sweden has been investing more in China than the other way around.<sup>2</sup>

There is a great variation of exchange between the two countries, which ranges from higher education and research to environmental technology. As China's economy continues to grow and its market expands, its importance for Swedish trade and industry is increasing too. Relations between Sweden and China are characterized by the huge differences in size of the two countries. Sweden is a small, export-dependent economy, while China is the world's second largest economy in nominal terms. Substantial differences exist not only in terms of size of national GDP but also regarding official positions on human rights, political liberties, and democracy.

However, unlike Sweden's neighbour Norway, these fundamental differences between political systems and ideological perspectives have not impacted on the economic and diplomatic interaction between the two countries. Lacking such friction, trade between the two countries during recent years has become larger than ever before. The trade between the two countries has increased dramatically since China joined the World Trade Organization. China is now Sweden's largest trading partner in all of Asia and around 10,000 Swedish companies are involved in trade with China.<sup>3</sup> Business Sweden (The Swedish Trade and Invest Council), has established offices in major Chinese cities such as Beijing, Shanghai, Guangzhou and Hong Kong.

## Sweden's goals and benefits from relations with China

The expansion of Swedish industry and diplomacy in China demonstrates that Sweden, being an export dependent country, is ever keen on cultivating good relations with China to further the goal of increasing its exports to the Chinese

- 1 Ministry for Foreign Affairs (2010) '60 år av diplomatiska förbindelser mellan Sverige och Folkrepubliken Kina' (60 Years of Diplomatic Relations between Sweden and the People's Republic of China). [http://www.regeringen.se/download/968ee6fc.pdf?major=1&minor=22588&cn=attachmentDuplicator\\_0\\_attachment](http://www.regeringen.se/download/968ee6fc.pdf?major=1&minor=22588&cn=attachmentDuplicator_0_attachment).
- 2 City of Stockholm, City of Uppsala, Office of Regional Planning (2011) 'Kinesiska investeringar i Östersjöregionen' (Chinese Investments in the Baltic Sea Region). [http://www.tmr.sll.se/Global/Dokument/publ/2011/2011\\_ovrigt\\_Basaar\\_kinesiska\\_investeringar.pdf](http://www.tmr.sll.se/Global/Dokument/publ/2011/2011_ovrigt_Basaar_kinesiska_investeringar.pdf), p. 12.
- 3 Embassy of Sweden in Beijing (2015) 'Handel Sverige – Kina (Trade Sweden – China)' <http://www.swedenabroad.com/sv-SE/Ambassader/Peking/Handel/Handel-mellan-Sverige-och-Kina-Fakta-och-framjande/>.

market. As of 2014, China was Sweden's 10th largest exporting market, worth EUR 3.9 billion, and the 8th largest market for imports, worth EUR 4.9.<sup>4</sup> Machinery was Sweden's largest export good to China, representing 34 percent of Swedish exports to China in 2013. Other goods such as medical and pharmaceutical products, transport equipment, organic chemicals, paper, iron and steel, form a major part of Swedish exports to China. Sweden's major import good from China is machinery, accounting for 41 percent of the value of imports from the country. Clothing is the second largest category of imports, with metals and furniture also being major import goods from China.<sup>5</sup> The Embassy of Sweden in Beijing, the Consulates General in Shanghai and Hong Kong, Business Sweden and the Swedish Agency for Growth Analysis, are promoting safety, sustainability and corporate social responsibility (CSR) when doing businesses in China.<sup>6</sup> Making business decisions in China can be complex due to the unwieldy bureaucracy; therefore the Swedish embassy occasionally functions as a 'door opener' in regards to Chinese government agencies, and it promotes Swedish corporations as benchmarks and role models for how business can act responsibly toward the communities in which they are embedded. Sweden's embassy in Beijing has organized activities around four distinct issue areas of project-oriented investments: the Center for Environmental Technology (Centec), Corporate Social Responsibility Center (CSR-center), Life Science and Sustainable Transport Solutions.<sup>7</sup>

However, Sweden does not only have economic-related interests in China. One of the main Swedish goals to be attained through widened contacts are cultural exchange, increased social, so-called people-to-people, exchanges and collaborative projects that try to stimulate the emergence of a civil society in China that in the long run is believed to promote democracy and human rights.<sup>8</sup> In recent years though, the approach to China has changed in the sense that Sweden seems to prioritize a common European Union policy towards China instead of making solo efforts. Another major goal is to encourage China to take a greater responsibility in regards to climate change. Therefore Sweden wants China to achieve a sustainable and environmentally friendly development through improvements in energy efficiency, decreasing air pollution, better waste management as well as sustainable urban development and emission reduction measures.<sup>9</sup> That said, for well over a decade, different Swedish governments have prioritized economic relations and praised economic progress in China, whereas vocal critiques of human rights violations have decreased over time, at least according to human rights organizations. This phenomenon may illustrate similarities with other European countries, whereby national concerns over human rights issues seem to have been shelved to the supranational level of the European Union.

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4 Statistics Sweden, 2014 export and import figures.

5 Embassy of Sweden in Beijing (2015) 'Handel Sverige – Kina' (Trade Sweden – China), <http://www.swedenabroad.com/sv-SE/Ambassader/Peking/Handel/Handel-mellan-Sverige-och-Kina-Fakta-och-framjande/>.

6 Business Sweden, Embassy of Sweden in Beijing, Swedish Chamber of Commerce (2013) 'Swedish Business in China – Trends and Challenges,' [http://www.swedenabroad.com/ImageVaultFiles/id\\_14532/cf\\_347/2013\\_Swedish\\_Business\\_in\\_China\\_-\\_Trends\\_and\\_Challe.PDF](http://www.swedenabroad.com/ImageVaultFiles/id_14532/cf_347/2013_Swedish_Business_in_China_-_Trends_and_Challe.PDF), p. 23.

7 Embassy of Sweden in Beijing (2015) 'Handelsfrämjande' (Trade Promotion), <http://www.swedenabroad.com/sv-SE/Ambassader/Peking/Handel/Handelsframjande-sys/>.

8 Ministry for Foreign Affairs (2015) 'Sveriges förbindelser med Kina' (Sweden's Relations With China), <http://www.regeringen.se/sb/d/3822>.

9 Embassy of Sweden in Beijing (2015), 'Centec', <http://www.swedenabroad.com/sv-SE/Ambassader/Peking/Handel/Handelsframjande-sys/CENTEC-sys/>.

## China's goals and benefits from relations with Sweden

One of the major interests of China in its bilateral relations with Sweden concern technological improvement. Chinese industry and its capacity for technological innovation lag far behind Sweden. Swedish companies are viewed as key to advancing Chinese technology. Thus, Chinese companies have acquired an increasing number of Swedish businesses, most notably the Volvo Car Group. Now, concern has risen in Sweden about Chinese companies catching up with Swedish companies in terms of technological advancement. One example of this is the Chinese network giant Huawei's tough competition with the Swedish giant in the area of networking and telecommunication, Ericsson. In March 2015, Ericsson announced that it will cut more than 2000 jobs in Sweden in an effort to cut costs.<sup>10</sup> This is just one major incident in an on-going trend that has seen the 139 year old Swedish telecommunication giant steadily reduce its size during the 21st century.

Geopolitics has also entered the picture. Sweden is an Arctic country, one of only eight members of the Arctic Council. Recently, China has become increasingly interested in the Arctic region. Due to the rise of China's power, its extra-regional ambitions have increased. Particularly, its interests in getting access to new sources for energy have propelled the expansion of Chinese diplomatic activity far beyond its borders. Due to climate change and improvements in technology, the accessibility to the Arctic's natural resources is better than ever before; as are the important shipping lanes of this region. As a result of these changes, China has become increasingly interested in raising the topic of the Arctic in its relations with Sweden. In 2013, the eight member states of the Arctic Council, including Sweden, signed the Kiruna Declaration, which gave China observer status in the Arctic Council.<sup>11</sup>

## Chinese soft power

Another Chinese goal in its relations with Sweden concerns enhancing China's image. By utilizing soft power, or at least using what it depicts as measures of soft power; China wants to shape how the country and its activities are perceived among foreign populations and audiences.<sup>12</sup> The Chinese government has established cultural centres in Sweden such as Confucius Institutes with this goal in mind. The Chinese Confucius Institute at Stockholm University met a high degree of criticism regarding issues of censorship. It was believed that a government-owned Confucius Institute would threaten academic freedom and put into practice discrimination against, among others, people who perform Falun Gong. In December 2014, Stockholm University announced that it would terminate its contract with the Confucius Institute,<sup>13</sup> which may indicate a change of priorities among establishments of higher education in Sweden.

10 'Ericsson storvarslar – lägger ner i Katrineholm' (Ericsson makes big cuts - ends its activity in Katrineholm), 11 Mar. 2015, <http://www.svt.se/nyheter/regionalt/ostnytt/ericsson-storvarslar>.

11 Arctic Council Secretariat (2013) 'Kiruna Declaration,' <http://www.arctic-council.org/index.php/en/document-archive/category/425-main-documents-from-kiruna-ministerial-meeting?download=1757:kiruna-declaration-final-signed-version>, p. 6.

12 Mikael Weissman (2012) 'China's Soft Power – Does it Exist? What Does it Mean?', [http://www.ui.se/eng/Files.aspx?f\\_id=86756](http://www.ui.se/eng/Files.aspx?f_id=86756), p. 28.

13 'Kontroversiellt institut läggs ned' (Controversial Institute Shuts Down), Dagens Nyheter, 19 Dec. 2014, <http://www.dn.se/nyheter/kontroversiellt-institut-laggs-ned>.

## Higher education and research

As a part of deepening relations and cooperation between China and the Nordic Countries, cooperation has also developed at an academic level. The Nordic Centre at Fudan University in Shanghai opened in 1995 and involves cooperation between, among others, a number of Swedish universities and Fudan. Apart from the main goal of promoting research activities between its members in the Nordic countries and China, it also functions as a platform of communication between the Nordic and Chinese communities and citizens.<sup>14</sup> There is also cooperation between the Swedish Raoul Wallenberg-institute and Chinese universities. In 2004, with the support of Raoul Wallenberg Institute, Peking University Law School's Research Centre for Human Rights and Humanitarian Law started China's first post-graduate program in human rights.<sup>15</sup> This can be seen as a part of the Swedish strategy to bring more attention in China to human rights issues.

## Human rights issues

Sweden has for long been a fervent advocator of human rights. Regarding Sweden's role in advocacy in China, it is important to recognize the sheer difference in terms of power. China has become increasingly confident and vocal in its relations with Western countries. It then becomes increasingly difficult for the European Union in general, and for a small country such as Sweden in particular, to exercise any major influence over human rights issues. Sweden shares its situation with other smaller EU member states that seek to pull themselves out of economic crisis and are in need for overseas foreign direct investment (FDI). Under these circumstances, China has proven increasingly reluctant to cooperate on human rights issues. A case in point was when the Nobel Peace Prize was awarded to Liu Xiaobo in 2010, which created a major diplomatic setback in relations between Norway and China, and Beijing immediately froze the diplomatic channels with Norway.<sup>16</sup> Overall it has become more problematic to criticize China on human rights issues. Some would argue that two conflicting interests are involved: economic interest and human rights interest. This recently became apparent in the case of Saudi Arabia, where Sweden's foreign minister, Margot Wallström, was very vocal in her criticism against the dictatorship and Sweden also announced that it will scrap an agreement on arms cooperation. Saudi Arabia subsequently withdrew its ambassador to Stockholm and stopped issuing new business visas for Swedish businessmen.<sup>17</sup> This has led to a debate in Sweden over which approach is best in dealing with regimes violating human rights like Saudi Arabia or China; a more vocal outspoken criticism towards the regimes, or instead a softer approach with deeper cooperation and economic trade relations. In the case of China it became apparent during Swedish Prime Minister Stefan Löfven's visit to China in March 2015 that the softer, more conciliatory approach was preferred, at least against China.

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14 The Nordic Centre in Shanghai, 'Activities at the Nordic Centre', <http://nordiccentre.net/mm/activities>.

15 Merethe Borge MacLeod, 'China', <http://rwi.lu.se/where-we-work/regions/asia/china/>.

16 'China – Norway relations remain frosty', News24, 28 Oct. 2013, <http://www.news24.com/World/News/China-Norway-relations-remain-frosty-20131028>.

17 'Saudiarabien utfärdar inga nya affärsvisum' (Saudi Arabia does not issue any new business visas), 19 Mar. 2015, <http://www.svt.se/nyheter/utrikes/saudiarabien-utfardar-inga-nya-affarsvisum>.

## Environmental technology

Compared to human rights, the scene is quite different in the field of environmental technology. First of all China is not at all reluctant to cooperate in this sector. To the contrary, it has been eager to learn from Swedish innovations and experiences in the field.<sup>18</sup> This interest is related to environmental concerns in China especially due to the severe air and water pollution in major cities and the countryside, which is a major cause for social unrest and protests. There is a positive view in China of technology and knowledge spillover; therefore, especially in the field of environmental technology, China has great interest in furthering cooperation with its European counterparts, such as Sweden. Since there are mutual interests and mutual concern for both China and Sweden within this particular area, expanded collaboration in the future is likely.

China and Sweden have also initiated cooperation in a wide range of other fields. Some of the fields within which deeper cooperation is expected are: advanced manufacturing, life sciences, information technology and urbanization.<sup>19</sup> Naturally, this trend is commensurate with the Chinese ambition to advance its capacity for innovation in various fields of technology. But it is also in line with the Swedish interest of increasing its exports of goods and services, aiding the modernization of China, and attracting FDI from China. An embarrassing revelation concerning cooperation on sensitive technology was revealed by Swedish national television in June 2014. The scandal concerned the Swedish Defence Research Agency (FOI), which since 2012 had cooperated with the Chinese Academy of Engineering (CAE) on aerodynamic technology that could be used for missiles and jet fighters. It has been considered highly immoral for the Swedish Armed Forces and the defence industry to engage in cooperation with China due to its human rights situation, lack of freedom and the EU's arms embargo on China. This cooperation was achieved by using the Royal Institute of Technology (KTH) as a proxy.<sup>20</sup>

18 Chen Yuming, 'Remarks at the Sino-Swedish Green-Coop Platform Launching Ceremony,' 6 Nov. 2014, <http://www.chinaembassy.se/eng/sgxx/dsjh/t1208115.htm>.

19 Chen Yuming, 'Speech by H.E. Mr. Chen Yuming, Chinese Ambassador to Sweden at the Students' Association,' 11 Aug. 2015, <http://www.chinaembassy.se/eng/sgxx/dsjh/t1208115.htm>.

20 'Kina-affären: KTH front i kontroversiell affär' (KTH Used as a Strawperson in Controversial Affair), 2 Sep. 2014, <http://www.svt.se/ug/kina-affaren>.

## 15

## UK-China relations: Navigating a changing world

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(April 2015)

Relations between the UK and China are in an uncertain period, the result of a combination of China's rise and ongoing transformation, shifts in UK foreign policy more generally, and global developments elsewhere. The main strategic challenge for the UK is setting the optimal strategic direction in its relations with China, and in particular working out how to manage relations with China as part of an increasingly complex global diplomatic web. Uncertainty in the UK's relations with the rest of the EU contributes to the challenge.

### Power shift: the world is changing

The underlying dynamic is a clear relative shift in power between the UK and China, part of a wider redistribution of global power and influence which has come with the rise of emerging powers and post-global financial crisis challenges to previous Western dominance. Between the UK and China, this relative shift in power was highlighted by China overtaking the UK in aggregate economic size in the late 2000s, though it should be noted that China remains far behind the UK in per capita measures and when it comes to value-added economic activity or the majority of research capabilities. The extent of this power shift and its implications therefore remain contested, but the initiative in setting the UK-China agenda has moved towards China, and in general terms the UK does not wield the influence over Chinese policy makers that it might have done in the past.

This power shift creates challenges in setting the tone of the relationship. An earlier UK discourse that included elements of ideas such as 'helping China to modernize / develop' has largely disappeared from official rhetoric, but the idea that the UK's political and economic systems are more ideal than China's is still strong among UK opinion formers, and is echoed in some quarters in China too.

### Diverse and multi-faceted bilateral relationship

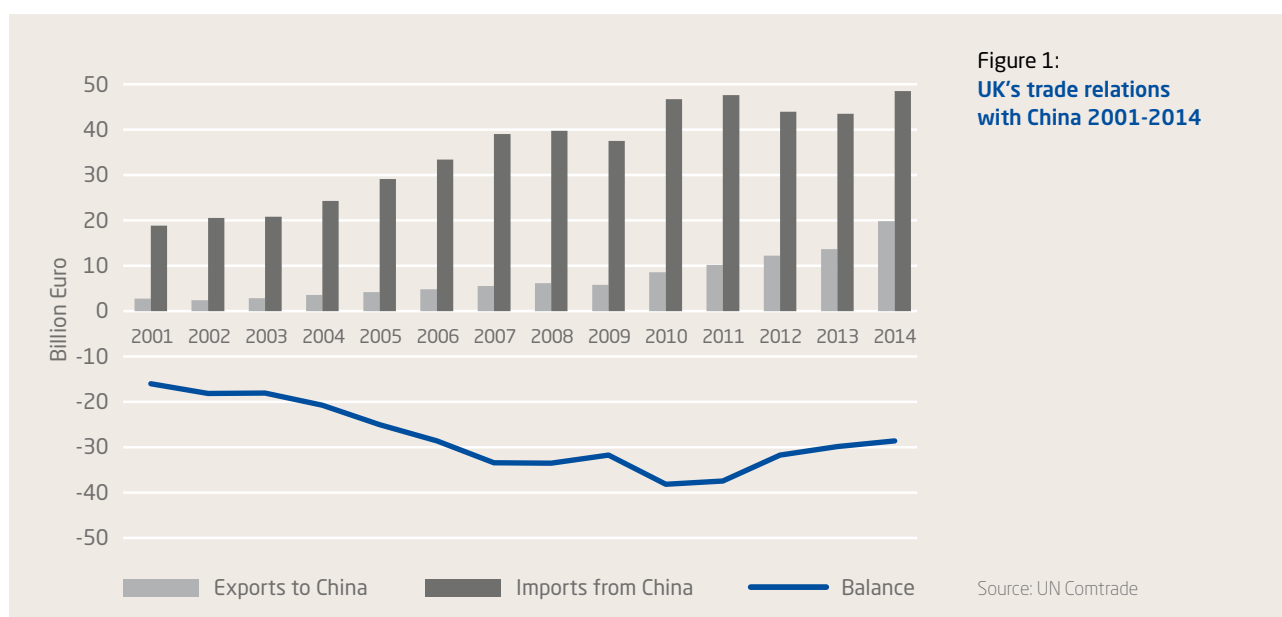
At official level, the dominant tone is one of partnership and collaboration, symbolised by the 'upgrading' of the relationship to a strategic partnership in 2004. The practical implementation of this partnership is work in progress, but over the last decade, the UK-China relationship has become increasingly diverse and multi-faceted. This is seen at the official level by regular visits to China by government ministers from most government departments. The embassy in Beijing also houses staff from across the UK government, and is no longer so dominated by those from the foreign ministry. In the mid-2000s, for example, the UK government made climate change a priority for discussion with Chinese opinion formers, and dialogue on this issue became an important part of the bilateral relationship. This is also a good example of efforts to diversify and broaden the agenda from traditional bilateral to global issues.

<sup>1</sup> This paper represents the personal views of the author, who is grateful to Alice Ekman, Miguel Otero and Kerry Brown for their comments on earlier drafts.

The multi-faceted nature of the relationship is enhanced by growing popular interactions, from tourism in both directions, to the arts and culture, and the substantial Chinese student presence in the UK. Over 570,000 UK citizens travel to mainland China a year,<sup>2</sup> making the effective provision of consular services in China an important interest for the UK. There is growing collaboration between universities and research institutes in science and innovation and on issues such as low-carbon development.

The commercial implications of China's continued economic growth, and a difficult economic environment in the UK and Europe, pose strategic opportunities and challenges for British companies. These implications vary substantially across sectors and companies: some look at China primarily as a market of (often potential) consumers, while for others it is a source of partners, investors or competitors in third markets. These commercial interactions have their own dynamic, driven by companies and consumers more than governments (bilateral trade and investment growth continued during the 18-month 'freeze' in high-level visits from 2012 – see below), a trend which is likely to grow further as China's economy becomes increasingly market-driven. Chinese companies and consumers are particularly attracted by the strengths of UK in design, certain niche technologies and high-end manufacturing.

At the same time, both governments are engaged actively in promoting trade and investment in both directions. Bilateral trade exceeded USD 70 billion in 2013 for the first time,<sup>3</sup> with UK exports to China growing 15 percent. The fastest growth is currently in investment from China to the UK, with one recent study predicting around USD 150 billion of Chinese investment in UK infrastructure by 2025, compared to USD 18 billion between 2005 and 2013.<sup>4</sup>



<sup>2</sup> This figure does not include visits to Hong Kong and Macao. See <https://www.gov.uk/foreign-travel-advice/china>.

<sup>3</sup> [http://news.xinhuanet.com/english/china/2014-01/22/c\\_133065103.htm](http://news.xinhuanet.com/english/china/2014-01/22/c_133065103.htm).

<sup>4</sup> <http://www.ft.com/intl/cms/s/501808f6-5b89-11e4-b68a-00144feab7de>.

The bilateral agenda in finance has become more important as China's global financial influence has grown and its system becomes closer to that in other economies. In particular, since 2009, the Chinese government's strategic efforts to internationalise the RMB have opened up an important new area in the UK-China bilateral relationship, as London has sought to become a major RMB centre. The UK's financial sector is viewed positively by counterparts in China.

For the UK, human rights remains on the agenda, though the relative amount of resources devoted to it has declined as the diplomatic agenda has grown and the power dynamics have shifted. UK policy makers appeared to have been surprised by the length of the 'cooling' of official relations after the Prime Minister and Deputy Prime Minister met the Dalai Lama in 2012, to which the Chinese government responded by cancelling high-level official visits for 18 months (as noted above, though, trade and investment continued to grow during this period). Tibet remains a potential issue, given the domestic support in the UK for Tibetan causes, but it has not featured on the agenda recently.

### **Hong Kong: the colonial legacy**

From the 1980s to 1997, UK-China relations had been dominated by the issue of Hong Kong, but the territory's return to Chinese sovereignty in 1997 opened a new chapter in UK-China relations. However, in 2014, Hong Kong returned to the top of the bilateral agenda in the midst of debate over constitutional reform in Hong Kong, the issue that had consistently been most difficult in the UK-China discussions around Hong Kong in the run-up to 1997. Chinese sensitivity over any UK comments seen as critical has been long-standing, but the bilateral tension over Hong Kong rose after the House of Commons Foreign Affairs Committee announced in the middle of 2014 that it would conduct an inquiry into the implementation of the Sino-British Joint Declaration, the agreement reached in 1984 that set out the 'one country, two systems' framework for Hong Kong's return to Chinese sovereignty.

As of early 2015, the immediate heat has gone out of the issue, which remains for the moment just one element of the wider UK-China relationship. But this highlights Chinese sensitivity about perceived UK interference and the shadow of the UK's colonial legacy. More widely, the UK's imperial history, particularly incursions into China in the late Qing dynasty (19th century), remains a strong part of popular and elite Chinese perceptions of the UK.

### **China in the wider context of UK foreign policy**

As noted above, the rise of China and changing dynamics in the UK-China relationship come at a time of wider global shifts in power. The response of UK foreign policy over the last decade has included a desire to allocate more resources to dealing with new powers and emerging markets, including China. This is something that has cut across political parties and reflects wider strategic approaches from commercial, educational and other institutions in the UK. But the challenges faced include a decline in resources for both diplomacy (maybe by as much as 30 percent since 2010<sup>5</sup>) and the military, and pressure to deal first with immediate priorities, particularly the wider Middle East.

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5 <http://www.ft.com/intl/cms/s/f7e4c1e8-69ab-11e4-8f4f-00144feabdc0>.



This needs to be put alongside the intensified debate in the UK about the country's relationship with the rest of the EU. The UK has more options if it can deal with China as part of the EU as well as bilaterally; this depends partly on the issue, but on many global issues the EU voice is much more likely to be taken seriously by Beijing than the UK's on its own, particularly when trying to persuade Beijing to change its policy approach. Given the power shifts outlined above, and the element in Chinese foreign policy that sees a world of (supranational) regions, any further weakening of UK commitment to the EU would limit the options available for dealing with China. There is already a tendency in China to see the UK as a declining power, and this would be increased by a UK withdrawal from the EU.

The UK's relationships with both the EU and the U.S. were relevant to the March 2015 decision by London (the Treasury is the lead department) to apply to join the Asian Infrastructure Investment Bank (AIIB), which has been initiated by Beijing. This decision was welcomed in China, but it also demonstrated the UK's willingness to make unilateral decisions on strategically important issues, rather than work alongside other EU member states or – in this case – consult Washington. Another example of the UK getting ahead of the EU was Prime Minister Cameron's comments on his December 2013 visit to China about the desirability of an EU-China FTA.<sup>6</sup>

However, it was the U.S. angle to the AIIB decision that attracted most interest, given that the U.S. had reportedly lobbied other allies (especially Australia and South Korea) not to join the bank when it was launched in 2014. It is not the first time that the UK government has taken a position distinct from that of the U.S. with respect to China – David Cameron met the founder of Huawei around the same time that Congress issued a highly-critical report accusing Huawei of collusion with the Chinese authorities (a UK government report has since concluded that Huawei does not compromise national security<sup>7</sup>). These incidents highlight the possibility of a growing gap between the UK's interests and those of the U.S. when it comes to China, something which may also apply to other EU member states and traditional allies of the U.S. such as Canada or Australia. This gap in interests may be more keenly felt if U.S.-China relations worsen, and in general terms UK (and EU) wider commercial and diplomatic interests are probably best served by good U.S.-China relations.<sup>8</sup>

## Debate about China in the UK

Similarly, the debate in the UK about China has been much more moderate and less nervous about China's rise than that in the U.S., probably because China offers a much more limited threat to UK security interests than it might to those of the U.S., which wants to remain the dominant military power in the Asia-Pacific. Issues around the rise of China are therefore not generally contested in the UK, though there have been hints of the potential for greater debate to emerge, such as when the government announced that Chinese companies would be welcome to invest in the UK's nuclear infrastructure.<sup>9</sup> The recent AIIB decision also sparked a mini-debate on the UK's strategic positioning with respect to the U.S. and China.

6 <http://english.caixin.com/2013-12-03/100612811.html>.

7 <http://www.ft.com/intl/cms/s/70592668-d2e4-11e4-a792-00144feab7de>.

8 The final section of an April 2014 Chatham House paper, *China's Global Personality*, discusses some of these themes in more detail.

9 <http://www.theguardian.com/world/2013/oct/17/china-investment-uk-osborne-nuclear>.

It can also be argued that the impact of China's rise for the UK (and its policy makers) has not yet been fully digested, and has the potential to touch on more and more domestic and foreign policy issues in the future, particularly with greater numbers of Chinese visitors and businesses coming to the UK. Challenges in dealing with China include physical distance, linguistic and cultural differences, and a political system that is not understood or trusted. All of this means that dealing with China in the future is likely to pose new and substantial challenges, requiring the development of greater expertise across government, business and other areas.

In turn, this gets to the key question of the underlying motivations for the UK's China policy. Some focus on the values debate in the formulation of UK foreign policy, while others stress interests that range from commercial benefit to the need and desirability to work with China – as a major global power – on issues of concern to the UK. The main challenge for UK policy makers is setting out a strategic framework around relations with China that can balance values with a range of practical and strategic interests. In an increasingly complex world where overlapping networks of cooperation and competition are simultaneous features of relationships between state and non-state actors, this will prove a challenging task for the UK.

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